

U.S. Department of Commerce

Task Force on Product Liability and Accident Compensation



Report on
Product Liability
Insurance
Ratemaking



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and Accident Compensation
**Report on
Product Liability Insurance
Ratemaking**





**GENERAL COUNSEL OF THE
UNITED STATES DEPARTMENT OF COMMERCE**
Washington, D.C. 20230

August 27, 1980

In July, 1978, this Department initiated a detailed study of problems that had arisen in the area of product liability insurance ratemaking. This study was prompted by a finding by the Federal Interagency Task Force on Product Liability that overly subjective ratemaking practices had contributed to the dramatic and unprecedented rise in product liability insurance rates that occurred in the 1976-77 period.

I express appreciation to the many insurance and other organizations who assisted the Task Force in developing the Report.

This Report addresses a complex area. It attempts to describe insurance ratemaking practices as objectively and fairly as possible. It does not call for new Federal involvement in the area of product liability insurance or for major changes in the way product liability rates and premiums are determined. It does, however, make recommendations that deserve careful consideration by state legislatures, state insurance commissioners and insurers themselves. Implementation of these recommendations will be one more step toward preventing future product liability crises.

This study is the final of a series designed to deal comprehensively with the subject of product liability. The full series, all of which have been produced by the Department of Commerce, consists of the following:

Final Report of the Interagency Task Force on Product Liability (one volume)

- Legal Study (seven volumes)
- Insurance Study (two volumes)
- Industry Study (one volume)
- Selected Papers (one volume)

Uniform Model Product Liability Act

Report on Product Liability Insurance Ratemaking

The Task Force also drafted the Product Liability Risk Retention Act, introduced during the First Session of the 96th Congress as H.R. 6152 and S. 1789.

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EXECUTIVE SUMMARY

I. Introduction.--As a result of the findings by the Task Force on Product Liability that overly subjective ratemaking practices were, in part, responsible for the substantial product liability premium increases experienced by American businesses during the latter 1970's, the Administration directed the Department of Commerce to prepare a report containing recommendations that would help avoid this problem in the future. This report is in fulfillment of that mandate.

For purposes of this report, we have assumed the existing framework of state insurance regulation, with each state being free to impose its own regulatory system on product liability rates. Although such rates are established on the basis of national experience, individual states remain free to accept such rates, or to modify them as they may deem appropriate. We believe that this ability provides sufficient flexibility for individual states to implement the recommendations that will be made here.

II. Threshold Considerations: Why is Data Necessary?--On the one hand critics of the insurance industry have complained about a dearth of data, whereas the industry itself has complained about the costly collection of unnecessary data. Our views on this issue are set forth below.

A. Rating Bureaus.--Insurance Services Office (ISO) is the only rating bureau that makes product liability rates. ISO believes that it is collecting sufficient data to enable it to do so adequately. Subject to the specific recommendations contained in this report, we agree with this view.

B. State Regulators.--The state regulators have two principal needs for data: first, to fulfill statutory mandates that rates are "neither excessive, inadequate, nor unfairly discriminatory" and second, to assure that they produce premiums sufficient to enable insurers to operate in a solvent fashion.

In assuring that rates are "neither excessive, inadequate, nor unfairly discriminatory" a regulator must either review in detail the practices and procedures of the rating bureau (i.e., ISO), with special attention to judgment rates, and/or review the maturation of loss and expense experience of each insurer over long periods of time.

Fulfillment of the solvency function involves monitoring each insurer to assure that, in the aggregate, each has sufficient reserves with which to satisfy its liabilities.

C. Congress and State Legislatures.--Virtually all such legislative bodies have been interested in the answer to the question, "Are insurers rating product liability insurance based on actual product risk?" In order to address this question, these legislative bodies would need to have available the same sort of data that the insurance regulators would need to ascertain whether rates are appropriate.

D. Insurance Purchasers.--Generally, commercial insurance rates are not monitored by state regulators. Therefore, commercial insurance buyers should be advised by insurers of the general rate applicable to the average risk engaged in a similar business, together with any deviation or modification that the insurer may have made from that rate, and the reasons for so doing.

III. Initiative by the Insurance Industry and State Regulators to Ameliorate Product Liability Insurance Problems.

A. Generally.--The Product Liability Task Force's Final Report found that overly subjective ratemaking practices were one of the principal causes of the product liability insurance problem. However, the insurance industry and state regulators are taking certain steps to improve the situation.

B. ISO Initiatives--Amendments to its Commercial Statistical Plan.--ISO has made substantial improvements over the practices that existed prior to 1974 in its collection of product liability data.

C. National Association of Insurance Commissioners.--The NAIC is responsible for three initiatives, product liability Fast Track reporting, the Market Assistance Program, and the supplement to the annual convention statement (this last will be separately addressed, infra).

1. Market Assistance Program.--The NAIC sponsored the Market Assistance Program ("MAP") as a device to assist companies that found product liability insurance unavailable.

As a result of the relatively scant useage of the program--merely 800 firms nationwide--the conclusion appears inescapable that by focusing on unavailability, rather than unaffordability, the program's overall impact on product liability problems was negligible.

2. Fast Track Monitoring System.--Fast track reporting collects data for product liability insurance with respect to earned premiums, incurred losses, and computes the loss ratio based thereon. Data is collected quarterly from approximately nine participating insurers.

ISO has indicated that the fast track data may, as a result of its timeliness, "give additional insight into the current ratemaking experience." Nevertheless, there are several limitations inherent in the fast track data which render it ineffectual in drawing inferences concerning industry wide product liability insurance experience.

IV. Rating Techniques.

A. Classifications.--ISO uses 417 classifications for product liability insurance, of which 130 are (a)-rated with the balance being manually rated. These classifications (called "industrial classification codes") are not by product but rather by type of business or industry. They generally follow, but are not identical to, the classification methodology used by the Federal Government in its standard industrial classification ("SIC") codes. Since the ISO industrial classification codes are strikingly similar to the SIC methodology, consideration of the latter is worthwhile as it will highlight improvements that may be made in the ISO procedure.

Unlike the ISO procedure, the SIC code offers the following advantage: If data is collected at a specific level of detail (e.g., a five digit code), the corresponding data for a more general classification (e.g., a four digit code) can be found merely by adding the data compiled with respect to all specific codes, the first digits of which correspond to the more general code.

Were ISO to completely substitute the SIC code methodology to five digits for its present industrial classification codes, it could collect data in a fashion which enables it to ascertain (1) whether experience was homogeneous at various levels of detail; (2) whether there is sufficient experience to warrant a manual rate.

B. (A)-Rates.--Unlike manual rates, (a)-rates are not actuarially determined. Despite improvements to the data collection methodology, it appears that ISO does no analysis to ensure that in the aggregate, the guide (a)-rates will produce the required level of premiums.

(A)-rates are not rates in the true sense of the term--they are mere suggestions by ISO as to the appropriate rate to be charged with respect to a particular classification. Nevertheless, since the suggested (a)-rates are generally used as a starting point in rating (a)-risks, it was important to analyze them.

Essentially our methodology followed that used for basic limits rates. We developed and trended incurred losses, and trended exposures. We then applied the average (a)-rate to the exposures to produce the projected premiums from which we were able to determine projected loss ratios.

As a result of this analysis, we found substantial indicators that these rates have been established at a level in excess of that appropriate. We recommend that (a)-rates should be set at a level which, in the aggregate, balances projected premiums with projected losses among the (a)-rated classifications (with the exception of ICC 37101). This recommendation is not intended to derogate the insurers' ability to deviate from the published guide rates; it is directed at ISO to assure that its subscribing insurers have available an appropriate starting point in their rating of (a)-rated risks.

We also recommend that insurers maintain in their underwriting files, and make available to prospective insureds, sufficient information and data to ascertain why a particular (a)-rate was chosen, and the extent of, and reasons for, their deviations from the norm.

C. Other Rating Plans.--In addition to manual rates and (a)-rates, there are three other means by which product liability rates could be determined. These include loss rating, large (a)-rating, and rating under Rule 24H. Loss rating is a technique which deems a particular risk's experience to be 100 percent "credible" (i.e., statistically reliable). Thus, the actual rate charged is totally dependent upon the risk's prior loss experience.

Large (a)-rating is a type of composite rating which is available to risks developing \$100,000 or more manual basic limits premium for several lines of insurance, of which product liability may be merely one subline.

Rule 24H rating is similar to large (a)-rating. This rule provides that total product liability premium in excess of \$1,000 per annum for a risk producing an annual premium of more than \$1,000 at basic limits rates shall be (a)-rated.

We believe that loss rating and large (a)-rating is an appropriate distinction which should be continued. However, as our recommendations with respect to manual rates indicate, we believe that detailed product liability experience from each of these should be collected on an experimental basis. *

Rule 24H rating undermines much of the actuarial analysis that ISO undertakes in connection with manual rates. It permits the application of judgment rates--with respect to classifications that ISO has determined are homogeneous (i.e., manually rated classifications). It is inequitable to inject an unfettered discretion--which is precisely what an (a)-rate is in this context--into an otherwise actuarially proper rating scheme. As a result of the foregoing, we recommend that Rule 24H rating be discontinued.

D. Adjustments to Manual Rates.

1. Experience Rating.--Experience rating provides a method for taking into account a particular risk's previous experience, to the extent credible, in determining the rate that the risk will be charged. Presently, any risk developing at least \$2500 of basic limits manual premiums may, at the discretion of the insurer, be experience rated. We recommend that ISO study our comments to determine whether any improvements in this methodology are warranted. Also, experience rating should be made mandatory when applicable and the credibility formula used should be made part of the experience rating plan.

2. Schedule Rating.--We recommend the promulgation of schedule criteria to take into account product liability considerations, including such diverse items as safety design, quality control, the extent of an individual insured's products previously sold and still in use, and the nature of product usage.

Moreover, we believe that the range of schedule modifications should be actuarially analyzed: Since the present 25 percent overall limitation, as well as particular limitations placed on the various criteria to be promulgated will be arbitrary, the validity of these permissible ranges should be validated.

We believe that underwriters should have flexibility when they can articulate specific concerns warranting schedule modifications, to adjust rates accordingly. Thus, we recommend that the present \$1,000 eligibility threshold for schedule rating be removed.

V. ISO Ratemaking Methodology and Techniques.

A. Generally.--Product liability rates are determined separately for bodily injury ("BI") and property damage ("PD"). Further, they are determined separately for basic coverage (which for BI is \$25,000 for each occurrence and \$50,000 in the aggregate, and for PD is \$5,000 for each occurrence and \$25,000 in the aggregate) and for "excess coverage" (coverage in addition to basic coverage). The rates for excess coverage are expressed as a multiple ("excess limits factors") of the rates for basic limits coverage. The methodology used by ISO for determining the rates for basic limits coverage is similar for both BI and PD. This methodology is different from that used to obtain the multiple for excess limits coverage, which is again similar for both BI and PD.

B. Basic Limits Rates.--Generally, basic limits rates are determined on the basis of historic experience for basic limits coverage.

In determining the aggregate rate adjustment to be made, only the two most recently available policy years' experience is taken into account (weighting the most recent year by 70 percent, and the second most recent year by 30 percent). However, prior to reaching this point in the analysis, a number of adjustments are first required.

First, losses must be "developed." This is a procedure whereby "incurred losses" (losses paid for which reserves have been established) for a particular policy year are adjusted to an estimate of the amount expected to be paid out ultimately.

For a particular policy year, the incurred losses multiplied by the loss development factor will yield the ultimate estimated settlement value of those losses. However, since the ratemaking process requires that an estimate be made of future losses, a further adjustment is required to reflect an estimate of the magnitude of these losses, were they to occur with respect to a future policy year. This is accomplished by the use of a trend factor, which is computed from the average incurred loss for each of the most recent six policy years available.

The trend factor is then used to project future losses based upon the ultimate incurred loss values for each policy year under consideration. The projection is made by exponentially raising the trend factor (e.g., 1.145) by an amount which is

equal to the number of years into the future for which a projection is to be made. This result is then multiplied by the ultimate incurred losses (taking into account unallocated loss development factors) to yield the projected losses for the future year.

By dividing the projected losses for a policy year by the projected premiums for that policy year (which are also trended), ISO determines the projected loss ratio.

ISO spreads the aggregate rate adjustment among all the manually rated classifications via a procedure which takes into account the statistical reliability (i.e., credibility) of each. Note that this latter procedure often results in certain classifications experiencing a rate reduction, while other classifications experience a rate increase.

C. Excess Limits Coverage.

1. Generally.--The rates for excess limits coverage (i.e., coverage in excess of basic limits) are expressed as a multiple of the basic limits rate. Essentially, the methodology employed in computing excess limits factors is to determine the ratio which losses at a given policy limit bear to losses at basic limits. However, prior to computing these ratios, certain adjustments to the data base are first required.

2. Loss Severity Distribution.--The starting point for computing excess limits factors is to compile a loss severity distribution. This involves an analysis of the loss experience for the four most recent policy years for which data is available. Since allocated loss adjustment expenses (ALAE) will not vary by policy limit purchased, they are not included in the definition of "loss" for purposes of excess limits computations; computations with respect to these are performed separately. Essentially, losses that have been reported are, for each report, grouped according to their size into one of 63 size intervals. In order to "smooth" this data, ISO fits a continuous curve to each of the reports.

From the curves, ISO computes a trend factor in a fashion similar to that for basic limits losses, as well as a loss development factor.

3. Risk Loading Factor.--In addition to the foregoing, ISO also determines a risk loading factor. This additional factor is, in mathematical terms, proportional to the variance for a given risk's loss experience.

4. Factors for Occurrence Limits.--After these preliminary computations have been made, ISO computes the trended and developed losses at each occurrence limit under consideration.

After these adjustments are made to the loss data, the ALAE for each of the four policy years under consideration is developed to ultimate, and their trend factor is applied so as to produce the ALAE projected to the same point as are losses.

Next, the risk load at each occurrence limit being computed is determined.

Finally, a table is constructed as follows: for each policy limit (beginning with the basic limits), (1) the average losses (trended and developed); (2) the average ALAE (trended and developed); and (3) the risk load factor are totalled. The increased limits factor for each policy limit is simply the ratio of the total of items (1) through (3) at that policy limit to the total of items (1) through (3) at basic limits.

5. Increased Limits Factors Tables.--Note that as of this point in the analysis, ISO has merely derived excess limits factors applicable for those policies that contain only an occurrence limit. However, since it is customary to market product liability insurance policies with an aggregate limit as well as an occurrence limit, further adjustments to the data must be made. This is undertaken via a computer simulation which produces an estimate of severity and frequency. Through the computer simulation, tables are derived for excess limits which include both occurrence and aggregate limitations.

VI. Critique of Product Liability Ratemaking.

A. Source of Data.--While ISO has recently amended its commercial statistical plan to obtain monoline (a)-rated exposures, the data base still excludes a significant amount of product liability experience. ISO does not receive data from non-member insurers, and it continues to capture only summary data from loss-rated and large (a)-rated risks.

We believe that detailed collection of loss-rated and large (a)-rated experience should be undertaken on an experimental basis. Loss rated data may potentially (1) enhance the credibility of manually rated ICC's; and (2) facilitate a better rating for (a)-rated risks. Large (a)-rated experience, if similar to the corresponding manually-rated classification, could enhance the credibility of the manual classification.

It should also be noted that ISO presently collects data on a policy year basis which involves experience generated over a two-year period. Reporting to ISO will not begin until 27 months after the commencement of a policy year. By way of contrast, a calendar accident year method will begin reporting one-half of the same information 15 months after the year's commencement. We recommend that the feasibility of using the accident year methodology be investigated. Alternatively, it would appear that similar results might be achieved if data is analyzed and reviewed on the basis of one-half of a policy year. Therefore, we recommend that ISO investigate the feasibility of using this latter methodology as well.

B. Basic Limits Rates.

1. Loss Development.--The development procedure should be expanded to include additional methodologies including reviewing loss development by industry group and size of risk. This warrants further study, as would development by size of loss (the type of development analysis which is undertaken by ISO for excess limits factors).

2. Claim Development Factors.--Under present ISO methodology for basic limits rates, ALAE is included with incurred losses and is not accounted for separately. However, in determining the number of claims, which is used in the computation of trend factors, ISO excludes from the count those claims where allocated loss adjustment expenses were incurred but for which no amount of loss was paid. This exclusion results in an overstatement of the average amount of loss, and potentially distorts the computation of the trend factor.

It would appear that this potential source of error can be eliminated merely by including in the claim count and development those claims where solely loss adjustment expenses are incurred.

3. Trend Factors.--ISO should seek the best mathematical function for use in computing the trend factors and should investigate the feasibility of using an improved methodology in computation of the offset trend factor.

The latter represents a significant weakness in the ISO ratemaking procedure. Numerous sophisticated econometric models--including Chase, DRI, and Wharton--exist for projecting CPI values. The use of an exponential regression analysis for

the historic consumer price index for commodities CPIC values certainly represents an unsophisticated predictive parameter. The difficulty is apparent when one considers that the present exposure trend factor is 5.8 percent, while the rate of inflation has substantially exceeded this amount.

An additional point worthy of noting concerns the number of data periods taken into account for purposes of making the trend and offset trend determinations. Presently, ISO uses six policy years' data for computing its trend factor and 12 quarters of CPIC data in computing its exposure trend factor. If greater or fewer periods were included in the computation the trend factors would change as would the indicated rate adjustment. For example, by using 6 policy years' data and 12 quarters of CPIC data, trend factors are produced which provide a rate increase of 7.4 percent for BI and 17.5 percent for PD (the adjustments proposed in ISO's most recent rate filing). On the other hand, if the trend factors were computed from merely the 3 most recent policy years' data, together with the 3 most recent CPIC quarters (available to ISO at the time of its ratemaking), the result would yield a rate decrease of 31.3 percent for BI and a rate decrease of 26.4 percent for PD. Given the wide variation and results possible with purely a mathematical function, it is important for ISO to consider "external data or indicators" in determining the trend factors.

4. Determination of Aggregate Rate Adjustments.

a. Expense Loading.--The aggregate rate adjustment is made by comparing the projected loss ratio to a preestablished acceptable norm of 57 percent. The remaining 43 percent is accounted for by:

Production Cost Allowance	25 Percent
General Expense	10 Percent
Taxes, Licenses and Fees	3 Percent
Underwriting Profit and	5 Percent
Contingencies	
	<hr/> 43 Percent

Production cost allowance may vary from company to company as a result of differences between commission scales.

With respect to allocating the general expense provision among insurers, many of the general expenses are truly "fixed" expenses and will not vary in the aggregate with the level of underwriting activity in the product liability subgroup. However, these expenses will vary among insurers.

Expense loading includes a relatively small amount--3 percent--for taxes, licenses, and fees. This amount will vary among insurers as a result of the mix of businesses among the jurisdictions in which they do business.

Finally, it should be observed that expense loading includes a 5 percent provision for underwriting profits and contingencies.

It is desirable to take into account varying commission levels and varying general expense levels. Therefore, we recommend that ISO publish rates which do not take into account any of the expense loading provisions. These could then be determined by the individual insurers, who would merely multiply the published ISO rate by factors reflecting their own individual circumstances.

In addition to promoting greater equity in determining rates, this recommendation will likely result in increased competition among providers of product liability insurance.

b. Pure Premium and the Loss Ratio Method of Computation.--ISO presently uses a loss ratio method for determining rate level changes, rather than a pure premium method. However, mathematically, these two methods will produce identical results in terms of the indicated rate level change. ISO is presently studying the use of a uniform base for classifications which would enable it to use a pure premium approach.

5. Credibility.--ISO has recently introduced credibility considerations at the classification level "which recognize the variability of loss severity in addition to claim frequency." We recommended that such considerations be made for experience at the subgroup level.

C. Excess Limits Coverage.

1. Generally.

a. Data Base.--The data base used in the computation of the excess limits factors consists of both manually rated experience and (a)-rated experience. However, given the assumptions underlying the construction of the excess limits factors tables, separate tables may be warranted for manual and (a)-rates.

One of the initial assumptions in constructing the excess limits factors tables is that basic limits rates are generating adequate premiums. To the extent that these rates are manually determined, this is a reasonable assumption. However, to the extent that basic limits rates are (a)-rates, the assumption appears unwarranted. As our analysis with respect to (a)-rates indicates, they are set at a level which in the aggregate will produce more premiums than are necessary. Excess limits factors, as presently determined, would exacerbate this inequity.

Moreover, the methodology used for excess limits factors presupposes that (a)-rated experience can be combined with manually rated experience for purposes of computing trend and loss development factors. We are unaware of any empirical testing of this hypothesis and recommend that it be validated. In the event that the data bases are not combinable, then we would recommend separate tables for manual and (a)-rated classes.

b. High Hazard and Low Hazard Severity Tables.--The use of high and low severity tables for excess limits factors is an attempt by ISO to minimize cross subsidization of risks. Since the derivation of the high and low severity excess limits factors tables reflect merely the loss experience which is included in their derivation, the distinction appears appropriate. Of course, borderline cases will always result in some amount of cross subsidization.

2. Claims Severity Distribution.--It is recommended that the state regulatory bodies--which possess the actuarial expertise--validate the use of the Pareto parameter used to produce the continuous curves employed in the excess limits factors computations. To the best of our knowledge, this is presently not being done.

3. Other Observations.--We recommend that the computation of excess limits factors be made by weighting most currently available information. In this regard, present methodology treats all four policy years taken into account in the derivation of the excess limits factors equally; this contrasts with the procedure used for basic limits rates, which takes into account only the two most recent years in a ratio of 7:3 in the computation of that aggregate rate adjustment.

Finally, as was the case concerning the validity of the Pareto parameter, we also recommend that the states evaluate the assumptions and parameters used in the computer simulation which determines the increased limits factors table.

VII. Underwriting and Pricing Product Liability Insurance.--

Underwriting has been defined as "the process of hazard recognition and evaluation, risk selection, pricing, (and) determination of policy terms and conditions." The American Insurance Association has described the underwriting function as a "decision making process," and has broken it down into six steps:

1. Developing underwriting information;
2. Identifying exposures to loss;
3. Analyzing and evaluating the underwriting information and the identified exposures to loss;
4. Optimizing the underwriting alternatives; and
5. Monitoring the decision.

It should be noted that the underwriting process is fraught with judgment. It is dissimilar to underwriting consumer type insurance such as life, health or personal automobile, where the rate can be determined merely from a published table and adjusted to take into account particulars relating to the insured by published modification factors.

The underwriting process offers the opportunity to mitigate inequities built into the product liability ratemaking mechanism. These include:

A. Safe Product Dilemma.--Since the premium is generally determined by applying the rate to exposures (i.e., expressed in terms of sales), this methodology tends to penalize a manufacturer for adding safety features to a product which results in an increased sales price.

B. Long Life Product Dilemma. By focusing on annual sales, (premiums are generally determined by applying the appropriate rate to the number of exposures, expressed in thousands of dollars of sales), this methodology would tend to treat two manufacturers of the same product with the same sales volume equally, regardless of the fact that one of the manufacturers had previously sold many products which are still in service and which may cause injuries.

C. Multiple Product Inequity.--In those instances where the same business, as a result of the sale of several products, has its product liability insurance priced pursuant to more than one rate, the total premium is determined by adding the product of each rate and corresponding sales volume. The policy provided has an aggregate limit which may be the same as it would have been had the business sold only one product. The effect of this is to "short-change" the business as it is paying for multiple aggregate limits, but not receiving them.

All three of these potential inequities become exacerbated in cases where excess limits are purchased.

Through the underwriting process, the inequities inherent in each of these situations can be mitigated. These concerns can be taken into account via the proposed schedule modifications.

VIII. Time Value of Money and Investment Income.

A. Generally.--The ISO ratemaking methodology does not take investment income into account. It essentially projects historic losses into the future, projects historic premiums at the present rate level into the future, and determines the projected loss ratio based upon present rate levels. From this, the ultimate rate adjustment is determined so as to produce a normal loss ratio of 57 percent. This methodology presupposes that the insurer's average date of receipt of premium was the same date as the average date of payment of losses and expenses. However, this assumption does not reflect what in fact occurs: Rather, an insurer generally receives premiums with respect to a product liability insurance policy prior to the time it pays losses and expenses attributable thereto. Thus, the insurer has the use of this money from the average date of its receipt to the average date of payment. These funds are not held idle by the insurer, but rather are invested to produce income. Generally, this income is not accounted for by the insurer as arising out of writing product liability insurance; instead, it is included with the insurer's other investment income.

B. Investment Income.--In order to ascertain how much investment income is in fact being generated from product liability insurance, we constructed a model, following assumptions based upon the ISO Closed Claim Survey (the rate that losses are paid over time), the ISO ratemaking procedure (the proportion of items of expense), and Bests' Averages and Aggregates (the income tax rate). The results show that even

Finally, as was the case concerning the validity of the Pareto parameter, we also recommend that the states evaluate the assumptions and parameters used in the computer simulation which determines the increased limits factors table.

VII. Underwriting and Pricing Product Liability Insurance.-- Underwriting has been defined as "the process of hazard recognition and evaluation, risk selection, pricing, (and) determination of policy terms and conditions." The American Insurance Association has described the underwriting function as a "decision making process," and has broken it down into six steps:

1. Developing underwriting information;
2. Identifying exposures to loss;
3. Analyzing and evaluating the underwriting information and the identified exposures to loss;
4. Optimizing the underwriting alternatives; and
5. Monitoring the decision.

It should be noted that the underwriting process is fraught with judgment. It is dissimilar to underwriting consumer type insurance such as life, health or personal automobile, where the rate can be determined merely from a published table and adjusted to take into account particulars relating to the insured by published modification factors.

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with conservative assumptions, investment income is substantial: assuming a pretax rate of return of 7 percent, \$24.50 of after-tax income is generated for every \$100 of premiums written; if a pretax rate of return of 9.5 percent is assumed, the income generated increases to \$40.94 after taxes. It should be noted that in both cases these amounts are in addition to the \$5.00 (\$4.33 after taxes) of underwriting income which is provided for in the ISO manual rate structure.

C. Significance of Investment Income.--From the foregoing, two significant conclusions are drawn: (1) insurers potentially earn substantial amounts of investment income from the writing of product liability insurance which is not reflected in product liability rates; and (2) the product liability underwriting losses complained of may be significantly offset by the substantial amounts of investment income.

The model we have constructed is valid to ascertain that there is substantial investment income arising from the writing of product liability insurance: However, we cannot precisely measure the amount. Accordingly, we recommend that ISO collect and analyze the appropriate data to enable it to circulate projected rate of loss payout tables to its member and subscribing companies. These tables would enable individual companies to ascertain their anticipated yield from investment income attributable to product liability insurance by applying their expected after tax rate of return on investments.

The NAIC has recently required a separate product liability supplement in connection with its annual convention statement, which includes a provision for investment income. However, that report adopts an approach where investment income for a particular year is equal merely to the average rate of return on investments applied to the average unearned premium reserve plus the average loss reserves. We recommend an approach which takes into account the effect of compounding.

We express no opinion as to what an appropriate maximum rate of return should be for product liability insurance; however, we do recommend that investment income be taken into account by insurance regulators in determining rate adequacy.

IX. State Reporting Statutes.

A. NAIC.--At the conclusion of each year, insurers doing business in a state file with that state's insurance department an annual statement summarizing their insurance activities for the preceeding year. Historically, this statement did not call for the separate reporting of product liability experience. Presumably as a result of the problems in this line, the NAIC

in 1979 approved a product liability supplement to its convention statement which contains detailed product liability experience. However, several state legislatures and/or insurance departments have also perceived a need for this information and have either legislatively or administratively required product liability reports in addition to that provided by the supplement to the convention statement. Essentially, the NAIC report contains eleven exhibits.

B. State Reporting.--With respect to the state reporting requirements, the information required is similar to that required by the NAIC, but generally less detailed.

Eighteen states have adopted special reporting requirements by statute, while one has administratively adopted such a requirement.

Unlike the supplement to the convention statement, several states require information with respect to closed claims. One of the most unique reporting requirements in connection with the closed claims survey is provided by Kansas which requires the reporting, with respect to closed claims, of the amount reserved at the time of disposition, the amount of the initial reserve, the year established, and subsequent additions or subtractions to the reserve.

X. Analysis of Reporting Statutes.--The NAIC supplement to the annual convention statement, as well as the reporting requirements of individual states, are providing an overabundance of product liability information. Much of the information being requested is of marginal utility.

The NAIC supplement is subject to a number of difficulties one of which is its failure to match losses and expenses with appropriate periods giving rise thereto. This is because premiums are accounted for either as earned or as written, while expense items are accounted for merely as incurred (with no amortization over the policy life).

Further, the methodology used by the NAIC in effect calls for the annual transferring of investment income attributable to the product liability experience to the capital and surplus accounts. This tends to understate the investment income attributable to the writing of product liability insurance.

If one is seeking to ascertain the profitability of writing product liability insurance this cannot be fully gleaned from the NAIC supplement.

State reporting statutes which require nationwide experience are needlessly duplicative of the NAIC supplement. Moreover, such requirements are subject to the same limitations and criticisms as are the nationwide data on the NAIC supplement, and from the vantage point of the state regulator appeared to be of marginal utility.

Since product liability experience is generally required to be furnished on a state basis pursuant to these reports, the reported experience is subject to difficulties in connection with the allocation of experience attributable to multi-state activity. The most appropriate allocation for multi-state business would be to allocate premiums on the basis of exposures generated by activities within a state, and to include losses attributable to such exposures (regardless of where they may occur). This would equate a multi-state enterprise with a business situated solely in a single state.

With respect to those states which require closed claims reporting, it is generally unclear as to what positive benefit is to be derived therefrom. None of these state closed claims surveys collects detailed data--as did the ISO Closed Claims Survey--which would facilitate the evaluation of the operations of the tort litigation system. The collection of closed claims data by individual states on a nation-wide basis, without the detail of the ISO survey, is of questionable utility. However, it is nevertheless appropriate for states to require information with respect to claims closed within their borders, as this data will be useful in ascertaining how a state's tort litigation system is in fact functioning.

Perhaps the most salient question in any states' reporting scheme is that of Kansas in connection with reserves provided before a claim was closed. Essentially, this question provides a means for validating reserves for known claims. As these case reserves are a component of incurred losses for all state reports, for reports on the NAIC supplement to the convention statement, and to a limited extent enter into the computation of manual rates, their validity is extremely important. In this connection, the results from the Kansas survey for 1977 are available and show that losses that were actually paid were a mere 42 percent of the initial reserves, and 30 percent of the ultimate reserves. Admittedly, the Kansas experience is small relative to the total nationwide product liability experience. Nevertheless, these figures indicate that further study is warranted in this area.

CONCLUSIONS AND RECOMMENDATIONS

As the following report reflects, we have made a number of recommendations for improvements in product liability ratemaking methodology. This section will cull these recommendations from the report and allocate responsibility for their implementation among ISO, insurers, state regulators, the NAIC, and state legislatures. In making this allocation of responsibility, we do not intend to derogate from the state regulator's responsibility for implementing virtually all of these recommendations, nor from the state legislatures' functions. The allocation is intended merely to clarify which of the parties' action is necessary to effect the indicated changes.

A. Insurance Services Office should:

1. Amend its present classification scheme to one which uses the standard industrial code methodology to five digits.
2. Determine its (a)-rates actuarially which in the aggregate reflects the projected loss experience of all (a)-rated classifications.
3. Determine (a)-rates without regard to expense and profit loading.
4. Provide for each classification a range of (a)-rates which represent the average rate for the average risk.
5. Require that present ICC 37101 (manufacturers of autos, trucks, and buses) not be included in the actuarial determination of (a)-rates, and should be treated separately.
6. Abolish Rule 24H rating.
7. Continue experience rating at a \$2500 threshold.
8. Use experience rating to the extent credible for all risks presently eligible.
9. Revise the present scheme of schedule rating to include categories more suitable for product liability insurance.
10. Abolish the \$1000 threshold presently in effect for schedule rating.

11. Make all adjustments to manual rates (other than experience rating) through the application of schedule modifications.
12. Require the reporting of schedule modifications and periodically test them for their actuarial accuracy.
13. Collect and review detailed product liability data from large (a)-rated classifications and loss rated classifications on an experimental basis.
14. Investigate the feasibility of promulgating rates on an accident year basis, or alternatively, on the basis of a period consisting of 1/2 of a policy year.
15. Study the loss development procedure for basic limits rates to ascertain whether review on the basis of industry group or size or risk might yield more equitable results.
16. Include in its claim counts those claims where allocated loss adjustment expenses only were incurred.
17. Investigate the appropriateness of more suitable mathematical functions with respect to its basic limits trend factors.
18. Evaluate such trend factors in light of expected future conditions, external to the data used in their derivation.
19. Remove all expense and profit loading provisions from their ratemaking analysis.
20. Introduce severity considerations in the credibility analysis made at the sub-group level.
21. Empirically validate the combining of (a)-rated experience and manually rated experience for purposes of the excess limits tables.
22. In its derivation of the excess limits tables, stratify losses valued above \$300,001.
23. Derive a trend factor applicable to fully developed losses, rather than the immature 27 month losses with respect to the trend factor used for excess limits factors.
24. Collect data necessary to ascertain the payout rate of product liability claims.

B. Insurers.

1. When employing (a)-rates, the underwriting file should reflect:

a. If the rate employed with respect to a specific risk falls within the proposed guide range, the reasons that the high or low end of the range was used.

b. If the rate charged falls outside the guide range, each of the reasons warranting the use of a different rate and, to the extent feasible, the impact each such reason has on the overall deviation.

2. The information recommended to be included in the underwriting file pursuant to recommendation 1, supra, should be made available to each prospective risk prior to the issuance of any policy.

3. Insurers should also:

a. Load their own particular expenses and profit requirements into ISO's actuarially determined guide (a)-rates.

b. Use schedule modifications for all manually rated risks to take into account deviations that particular risks may have from the norm.

c. Memorialize schedule rating adjustments as part of the underwriting file.

d. Provide prospective insureds with a statement of the reasons for the schedule modifications and the extent of same.

e. Build into the ISO published manual rates their own particular expense and profit requirements.

C. State Regulators should:

1. Assure that all the foregoing recommendations are implemented.

2. In reviewing a basic limits rate filing:

a. Review the loss development exhibit for indications of reserve strengthening for various reporting periods, and require the use of an appropriate mean development factor to take such reserve strengthening, if present, into account.

b. Review the effect that ISO's data points have in the computation of the trend factors and on the overall rate adjustment.

3. In connection with the excess limits filing:

a. Review the validity of the Pareto curves used as estimators.

b. Review the number of data points used in computation of the trend factor.

c. Require the filing of separate exhibits for the development and for the trending of allocated loss adjustment expenses.

d. Require the submission of sufficient materials to validate the computer simulation used in the construction of increased factors limits tables.

e. Determine, with respect to particular insurers, the appropriateness of factors provided for underwriting profit in view of investment income, computed in a manner which will reflect the compounding of income.

D. The National Association of Insurance Commissioners should:

1. Coordinate the implementation of the recommendations made with respect to state regulators.

2. Amend the product liability supplement to the annual convention statement as follows:

a. Compute adjusted investment income in a manner which more equitably includes only those items of expense attributable to invested assets, and which includes gain or loss from the sale of bonds and real estate.

b. Compute investment income allocable to product liability on a compounded basis, taking into account investment income attributable to prior periods as appropriate.

c. Employ an accounting method which more accurately matches loss expenses with receipts.

d. Require the reporting of case reserves established for known claims.

E. State Legislatures should:

1. Repeal state product liability reporting laws, assuming the state uses the NAIC product liability supplement, as amended with recommendations proposed herein.

PREFACE

This report represents the conclusion of the Department of Commerce's study of product liability which began in the Spring of 1976. A brief recitation of its background may be helpful.

In 1976, the White House Economic Policy Board, responding to a growing number of complaints from the business community concerning substantial increases in product liability premiums, directed the Department of Commerce to prepare a brief report upon which it would be able to measure the extent of the problem. In this connection, an Interagency Task Force on Product Liability was appointed by the Board, chaired by the Undersecretary of Commerce, and comprised of a Council of Economic Advisors, the Office of Management and Budget, the Department of Housing and Urban Development, the Department of Health, Education and Welfare, the Department of Transportation, the Department of Treasury, the Department of Labor, the Department of Justice, and the Small Business Administration. (The Consumer Product Safety Commission also contributed to the study.) The Interagency Task Force conducted an intensive 18-month investigation, first publishing a briefing report¹ in January 1977, three contractor studies examining the legal, insurance, and industry ramifications of the product liability problem,² and finally, in November 1977, a comprehensive final report.³ While the Final Report contained no recommendations for the amelioration of the product liability problem, it did confirm its existence, and identified three major causes which could be addressed:

1. deficiencies in product liability ratemaking procedures;
2. uncertainties in the tort litigation system;
3. unsafe manufacturing practices.

In April, 1978, in response to a request by the Office of Management and Budget and of the White House Domestic Policy Staff, the Department of Commerce submitted an Options Paper proposing alternative recommendations for remedying the three principal causes of the problem. This Options Paper was published for public comment,⁴ with the Administration position being announced on July 20, 1978 by Secretary of Commerce Juanita M. Kreps.⁵ Essentially, the Administration position called for:

1. Extending the carryback period for net operating losses attributable to product liability and related costs from three years to ten years;
2. The preparation of a model uniform product liability tort law for voluntary adoption by the states;

3. A consideration as to whether insurance problems may be eased by facilitating the formation of self-insurance groups; and

4. A report addressing problems in liability ratemaking procedures which would include draft product liability insurance regulation standards.*

The first three items have been accomplished: the Revenue Act of 1978 amended the Internal Revenue Code to provide for the recommended carryback;⁶ a model uniform product liability tort law was promulgated in final form, being published in the Federal Register of October 31, 1979;⁷ and the Administration has sent the Product Liability Risk Retention Act to Congress for its consideration, where it passed the House and is presently pending in the Senate.⁸

Thus, this Report, addressed to problems in the product liability ratemaking procedure represents the final tangible work product of the Department of Commerce in the product liability area.

This report has been prepared with the assistance and cooperation of the National Association of Insurance Commissioners, the Insurance Services Office, the American Insurance Association, the Alliance of American Insurers, consumer organizations, the American Trial Lawyers Association, and others who gave freely of their time and expertise. While this report does not necessarily reflect the views of any of these groups or organizations, it has benefited from their suggestions and expertise.

* The statement also called for the Department of Commerce to coordinate with the Consumer Product Safety Commission, the Department of Labor, and the Department of Health, Education, and Welfare to explore whether the Federal Government could improve its efforts in distributing product risk information to product sellers. It was determined on the basis of a cost analysis that procedures should not be altered at this time. The statement also called for the Department of Commerce to assist the Department of Labor with respect to the relationship between worker compensation reform and product liability. The Department of Commerce supplied an options paper to the Department of Labor.

Chapter V, which describes the mechanics of product liability insurance ratemaking, was reviewed for accuracy by the Insurance Services Office. Through the courtesy of the Insurance Services Office, Task Force members visited its headquarters and reviewed its procedures for setting rates and premiums. Other sources of information have included hearings, conducted by the House Interstate and Foreign Commerce Subcommittee on Consumer Protection and Finance; Congressmen Scheuer, Preyer, Broyhill, and Rinaldo were particularly helpful in developing these hearings. The Report also benefited from earlier hearings conducted by Congressman John LaFalce who chaired the Subcommittee on Capital, Investment, and Business Opportunities of the Committee on Small Business.

The analysis and understanding of insurance ratemaking practices were also enhanced by our insurance contractor, E.H. Friend & Company, which prepared a detailed report on the subject. Its report will be published in the near future for those who wish to study this topic further. Finally, we express appreciation to the agency members of the Interagency Task Force on Product Liability. Those agencies include the Department of Labor, Department of Health, Education, and Welfare, Department of Treasury, Department of Transportation, Federal Insurance Administration Office, Federal Emergency Management Administration, Department of Justice, Office of Management and Budget, Council of Economic Advisors, Council on Environmental Quality, Environmental Protection Agency, Federal Trade Commission, Office of Federal Procurement Policy, and Office of Consumer Affairs. While these offices have not reviewed this report for "approval," they gave freely of their time and expert assistance.

FOOTNOTES FOR PREFACE

1. Interagency Task Force On Product Liability, Technical Briefing Report (1977). Copies of the Report may be obtained from National Technical Information Service, 5285 Port Street, Royal Road, Springfield, Virginia 22161 (Attention: Sales Desk). When ordering reports reference should be made to the appropriate accession number, and a check in the proper amount (made payable to "NTIS") should be enclosed. The Briefing Report Accession No.: 262-515; price: \$4.50.
2. The Research Group, Inc., Legal Study (1977) (Accession No.: P.B. 263-601; price: \$31.25). A one-volume Executive Summary has also been published: (Accession No.: 265-450, price \$6.00); Gordon Associates, Inc., Industry Study (1977) (Accession No.: P.B. 265-542, price \$21.25); McKinsey Co., Insurance Study (1977) (Accession No.: P.B. 263-600; price \$9.00). For general information on ordering copies of any of these reports, see note 1, supra.
3. Interagency Task Force on Product Liability, Final Report (1977) (hereafter cited as Final Report) (Accession No.: P.B. 273-220; price \$20.00). For general information on ordering copies, see note 1, supra.
4. 43 Fed. Reg. 14612 (1978).
5. See id. at 40447-48 (1978).
6. Revenue Act of 1978, Pub. L. No. 95-600, sec. 371(b), 92 Stat. 2859 (amending I.R.C. sec. 172(i)).
7. 44 Fed. Reg. 62714 (1979).
8. H.R. 6152, 96th Cong., 2d Sess. (1980); 126 Cong. Rec. H1671-84 (daily ed. March 10, 1980) (floor consideration of H.R. 6152).

I. INTRODUCTION

A. Generally.--As a result of the finding by the Interagency Task Force on Product Liability that problems with insurance ratemaking practices were in part responsible for the substantial product liability premium increases experienced by American businesses during the latter 1970's,¹ the Administration directed the Department of Commerce to undertake a report addressed to these containing recommendations to ameliorate the situation.² The mandate was as follows:

"To address problems in liability ratemaking procedures, the Administration has called for a report that would include draft product liability insurance regulation standards. That report would, among other things, evaluate:

"The appropriate Federal role in product liability insurance.

"The effectiveness of initiatives by state regulators and the insurance industry to address the problem.

"Whether the product liability premiums can more closely reflect actual product risk, e.g., extending experience rating to small business...."³

This report is in fulfillment of the mandate by the Administration.

B. The Appropriate Federal Role in Product Liability Insurance.--The business of insurance has been held to constitute interstate commerce,⁴ as a result of the McCarran-Ferguson Act.⁵ However, the business of insurance, including product liability insurance, is presently regulated by the individual states. During the past several years, a number of initiatives have been proposed which would change this scheme to provide a Federal involvement in insurance regulation. These have included recommendations by the National Commission for the Review of Antitrust Laws and Procedures,⁶ as well as legislative proposals introduced by Representative John J. LaFalce (D-N.Y.) and Senator Howard Metzenbaum (D-Ohio).⁷ All of such initiatives, at least to some extent, have proposed limiting and/or repealing the McCarran-Ferguson exemption from antitrust laws, thus injecting a Federal presence into the arena of insurance regulation. However, given the present framework of state insurance regulation, and considering our specific recommendations, it is apparent that all our proposals can be accommodated without a Federal intrusion. We believe that the present system of state regulation, regardless of a state's methodology for reviewing rates (e.g., prior approval, file and use, open competition, etc.) can, at least theoretically, take our concerns into account.

On the other hand, a recent report to Congress by the Comptroller General entitled "Issues and Needed Improvements in the State Regulation of the Insurance Business" has questioned the efficacy of state regulation.⁸ Since our recommendations are premised on detailed factual findings made with respect to product liability ratemaking mechanisms which were previously unknown, we believe it would be premature to recommend imposing any Federal regulatory presence in this area.

Thus, for purposes of this report, we have assumed the existing framework of insurance regulation, with each state being free to impose its own regulatory system on product liability rates. Although such rates are generally established on the basis of national experience, individual states can accept such rates or modify them as they may deem appropriate. We believe that this ability provides sufficient flexibility for individual states to implement the recommendations that will be set forth herein.

FOOTNOTES FOR INTRODUCTION

1. Final Report, supra Preface note 3, at I-21. .
2. See 43 Fed. Reg. 40438-48 (1978).
3. Id. at 40448. The Report also was to include consideration as to "whether insurance problems may be eased by facilitating the formation of self-insurance groups." Since the date of this mandate the Department of Commerce has drafted, and the Administration has forwarded to Congress for its consideration, the Product Liability Risk Retention Act, which has passed the House and is presently pending in the Senate. As the testimony given by the Department of Commerce before House and Senate hearings indicate, the Act will in fact assist in alleviating product liability insurance problems for members of risk retention groups. As a result of the extensive consideration that this question has received, this Report will not address the issue of self-insurance groups. Rather, the reader is directed to Problems, infra ch. II note 1.
4. U.S. v. South-Eastern Underwriters Association, 322 U.S. 533 (1944).
5. 15 U.S.C. secs. 1011-15 (1976).
6. National Commission for the Review of Antitrust Laws and Procedures, Report to President and Attorney General (1979).
7. E.g., H.R. 1860 to 1865, 96th Cong., 1st Sess. (1979); S. 2474, 96th Cong., 2d Sess. (1980).
8. U.S. Comptroller General, Issues and Needed Improvements in the State Regulation of the Insurance Business (1979).

II. THRESHOLD CONSIDERATIONS--WHY IS DATA NECESSARY?

A. Generally.--Throughout our consideration of product liability insurance, and that given by the four congressional committees and subcommittees to address the subject, it has been continually claimed that there is a paucity of data.¹ Initially, this dearth of data was conceded by virtually all involved.² However, this complaint continues despite the fact that since 1975 an abundance of data has become available: ISO amended its Commercial Statistical Plan ("CSP") in several respects to require the more detailed reporting of product liability experience;³ ISO provided a closed claims study detailing the experience of claims that were closed during an eight and one-half month period spanning 1976 and 1977;⁴ several state legislatures and/or insurance departments have required separate product liability experience reports and, in some cases, their own closed claim studies;⁵ the NAIC has instituted a fast track reporting system for product liability insurance; and the NAIC has adopted a supplement for product liability insurance on its annual convention statement.⁶ Interestingly, several state regulators and representatives of insurers maintain that much of the data presently being collected is unnecessary. Thus on the one hand, we have critics of the situation complaining of a dearth of data, and others involved in the industry complaining about the costly collection of unnecessary data. To reconcile these conflicting viewpoints, a brief consideration as to why data is necessary would be appropriate.

B. The Rating Bureaus.--Obviously, one of the principal uses of data is ratemaking. The Insurance Services Office, the only rating bureau of which we are aware that makes product liability rates, believes that it is collecting sufficient data to enable it to do so adequately.⁷ Subject to the specific recommendations contained in this report, we believe that this is in fact the case.

The ratemaking methodology used by ISO involves reviewing the historic exposures (generally sales dollars) and loss experience of a set of insureds, projecting this experience into the future, determining the adequacy of present rates, and making adjustments accordingly. The rates, in addition to taking into account losses, will also include provisions for various expenses incurred by the insurer as well as a provision for profit. With one significant exception, ISO is properly concerned only with experience which will be rated via a manual rate: ISO attempts to "balance the book" among the risks which are subject to manual rating. ISO seeks to provide a rate which will generate appropriate premiums to take into account projected losses. Experience against which the manual rate is not applied is irrelevant. An illustration may be helpful:

Assume that all product liability experience consists of three risks: A, B, and C. ISO makes manual rates only for risks A and B, but not for C. Assume further that ISO projects that risks A and B will each generate premiums of \$100, and each sustain losses of \$57. Assuming that this data is statistically reliable, it is sufficient information for ISO to ascertain that present rate levels for risks A and B are adequate (ISO determines that rate levels are adequate when projected losses are equal to 57% of projected premiums). The experience of risk C which is not subject to ISO manual rates is entirely irrelevant to this determination. Regardless of C's experience, the rates for risk A and B would not change.

The exception mentioned earlier is the experience for (a)-rated classifications. These are product liability classifications for which there is no manual rate because ISO believes that the experience for the classification is not sufficiently reliable.⁸ Formerly, ISO did not collect detailed experience with respect to these classifications. However, as of 1974, ISO began collecting it; this experience is necessary to determine with respect to each of these classifications whether changes in the experience warrant the establishment of a manual rate.⁹ Thus, while this experience properly does not enter into the computation of rate level adjustments for manually rated classifications, its collection is necessary to assure that its continued exclusion is appropriate.

On the other hand, ISO does not presently collect detailed experience for large (a)-rated risks or for loss rated risks, nor does it collect experience from nonmember or nonsubscribing companies. While we have recommended elsewhere in this report that the experience for large (a)-rated risks and for loss rated risks be collected on an experimental basis,¹⁰ we have done so with the view merely towards improving the reliability of the other data. We do not believe that the experience from loss rated risks or (a)-rated risks should be included in determining the aggregate rate level adjustments; however, this data may be usable to enable the aggregate rate adjustments to be spread among the various classifications in a more equitable manner. This would facilitate the making of rates which may be fairer than they are at present. However, we have recommended the collection of this data only on an experimental basis to enable ISO to ascertain whether it will, in fact, be useful for this purpose.

By contrast, we believe it entirely appropriate for ISO not to collect data from nonsubscribing and nonmember companies as such experience is outside that for which they are attempting to "balance the book."

Thus, from the foregoing discussion, it is apparent that if one is attempting to ascertain all product liability experience, this is properly not obtainable from ISO, nor is there any reason why it should be.

C. State Regulators.--The state regulators have two principal needs for data: first, to assure that rates are "neither excessive, inadequate, or unfairly discriminatory"¹¹ and second, to assure that they produce premiums sufficient to enable insurers to operate in a solvent fashion.¹² Considering solvency first, observe that virtually no insurer writes merely product liability insurance. Most often, insurers who engage in this activity also sell a full panoply of property and casualty insurance. Fulfillment of the "solvency function" involves monitoring each insurer to assure that in the aggregate, each has sufficient reserves with which to satisfy its liabilities. Thus, detailed product liability information is not necessary to the attainment of this objective.

One of the principal means of accomodating the "solvency function" is the annual convention statement.¹³ This statement, required to be filed by each insurer engaging in business within a state, depicts the experience of that insurer by line of insurance. Historically, the bulk of product liability experience was shown in line 17--other liability. However, it has been estimated that merely 40 percent of the experience shown in this line is product liability experience.¹⁴ This line also includes such diverse items as general liability, storekeeper's liability, director's and officer's liability, and so forth.

It should also be observed that as a result of the purpose of the convention statement--to ascertain solvency--the accounting methodology used therein is considerably more conservative than generally accepted accounting principles. Specifically, receipts (i.e., premiums) are accounted as earned or written, losses are accounted for as incurred, but expenses are accounted for as incurred, and never amortized. Thus, the convention statement does not provide for an accurate matching of revenues with losses and expenses; rather, it overstates expenses.

Furthermore, the convention statement provides no matching of underwriting results obtained in particular lines with the investment income those lines may generate. Thus, if a particular line of insurance has a so called "long tail"--whereby losses are not paid out until many years after the premiums are collected (and have earned investment income throughout)--the investment income earned on the reserves with respect to such a particular line is not indicated.

While the convention statement may be appropriate for determining the solvency of an insurer, it is a most inappropriate vehicle to determine the profitability of writing product liability insurance. Similarly, it is an inappropriate vehicle to determine whether rates are excessive, inadequate, or unfairly discriminatory, as it provides no matching of specific premiums charged with specific losses incurred. Thus, additional data sources are required to make this determination.

Since product liability rates broadly fall into two categories--those rates which are actuarially determined, and those which are determined by judgment--different data sources are appropriate in the consideration of each. Considering first those rates which are actuarially determined, these further subdivide into basic limits* manual rates and excess limits** factors.

To validate the basic limits manual rates, state regulators must have access to the ISO data base which includes for each classification the number of exposures, the incurred losses, derivation of loss development factors, trend factors, credibility analyses, and so forth. In those states where ISO is required to file its manual rates, it supplies and/or makes available to state regulators sufficient data to enable the latter to pass upon their validity.

In the case of excess limits factors, these are merely multiples of the basic limits rates, determined by projecting losses that would result at various policy limits. However, unlike basic limits rates, excess limits factors are derived from estimates of losses, and not from reported incurred

* Rates applicable to \$25,000 per occurrence and \$50,000 in the aggregate for bodily injury; \$5,000 per occurrence and \$25,000 in the aggregate for property damage.

** Limits in excess of basis limits.

losses. Thus, it is necessary for regulators to have available the derivations and computations of these estimated losses, as well as the empirical loss data in order that the estimates may be verified. To the extent that we are aware, this data and information is not presently being furnished to the state regulators, nor are they requesting it.

Judgment rates pose different problems yet. Consider first the so called (a)-rates. In most jurisdictions these are not required to be filed and are not actually rates. Nevertheless, as ISO has indicated, they are now capable of actuarial analysis so that one can ascertain whether they are excessive, inadequate, or unfairly discriminatory in the aggregate. This determination could be made in the same manner as that used for manual rates. Nevertheless, we are unaware of any jurisdiction where such a determination is presently made.

In determining whether other judgment rates--apart from (a)-rated classifications--are excessive, inadequate, or unfairly discriminatory, still different information is required. (These are judgment rates which would otherwise be manually rated, such as large (a)-rates or Rule 24H rates.) To the extent that the rates selected are equal to the manual rates, they would be presumptively valid; however, to the extent of any discrepancy, making such a determination would be difficult: It would involve a review of the underwriting file to ascertain whether, based on all the facts and circumstances, the rate charged is appropriate.

Note that regardless of whether the rates are actuarially determined or judgment determined, the foregoing discussion is concerned with determining their validity at the time they are charged. This determination can also be made, at least in the aggregate, after the fact by comparing the premiums received with the losses and expenses paid. Observe that the type of accounting necessary to do this is accounting on a policy year basis (which is what ISO uses for manual ratemaking): Accounting on a policy year basis provides an accurate matching of losses against the policies and premiums which produce them. In this connection, and were such data collected, it is important to bear several facts in mind.

First, for the initial years after the policy year, paid loss data will be minimal, because claims will have to work their way through the court system before they are settled or finally adjudicated. Second, for the early years, a significant portion of the total loss experience will necessarily and properly be estimated: These estimates should fall into two classifications--case reserves and incurred but not reported losses.

The first of these--case reserves--will represent the provision for losses which have been reported to the company but which have not been paid. These will necessarily be estimates made by the insurer of the amount it believes will finally be paid to close the claim.

The second of these--incurred but not reported losses("IBNR")--will represent a provision for losses which have not been reported to the insurer. Such losses may arise from delays in reporting losses to the insurer, or from losses with respect to products which have caused injuries which remain latent for some time (e.g., DES, asbestos, etc.).

With the passage of time, for a given policy year, the amount of paid losses will increase and the amount of case reserves and IBNR will both decrease, ultimately to zero. However, all losses will not have been paid until many years after a policy year's conclusion. Moreover, for certain insurers who have written coverage with respect to certain defective products where the injury does not become manifest until many years hence--such as DES or asbestos--a provision for IBNR will likely be maintained for a considerable length of time.

Thus, if the determination is to be made after the fact, it is necessary for the regulators to review each of these classifications--paid losses, case reserves, and IBNR--in their consideration as to whether rates are excessive, inadequate, or unfairly discriminatory.*

Finally, regardless of whether the determination of the reasonableness of rates is made at the time the rate is charged or subsequent thereto, it would be appropriate for a regulator to ascertain the extent to which an insurer earns investment income attributable to its reserves. As we have discussed

* It should also be noted that in making this determination, the expenses of the insurer must be included. Shortly after the conclusion of a policy year, the insurer is able to ascertain its production expenses, the general expenses, and the fees, taxes, and license fees attributable to the policy year. However, as with losses, its loss adjustment expenses--both allocated and unallocated--are to a substantial extent mere estimates. Thus, loss adjustment expense data will also subdivide into the three categories of paid, estimates for known claims, and estimates for IBNR--in a manner similar to losses.

previously, a significant portion of all losses which are ultimately paid are not paid for many years after a policy is written. While a provision is made on the books of the insurer for these losses, the insurer maintains, until actual payment, income-producing assets with which to satisfy them. It is thus appropriate to consider the income produced thereby as part of the total product liability experience when considering the reasonableness of rates. Since insurers have not historically accounted for their investment income in this fashion, allocations of total investment income to this subline will be necessary. Allocation of investment income is the subject of extended discussion at Chapter VIII.

D. Congress and State Legislatures.--Throughout our consideration of the product liability problem, we have witnessed at least four congressional committees and subcommittees consider the matter, as well as numerous state legislatures--many of which have enacted varying reporting laws with respect to product liability insurance.

Virtually all such legislative bodies have been interested in the answer to the deceptively simple question, "How much money are insurers earning or losing from product liability?"

As a result of the difficulties in the maturation of product liability loss experience as discussed in paragraph C, supra, the answer to this question is elusive. Moreover, it would involve a consideration of the investment income allocable to the product liability subline. Thus, in order to address this question, these legislative bodies would have to have available the same sort of data that the state insurance regulators would need to ascertain whether rates are valid in the aggregate.

E. Insurance Purchasers.--Insurance purchasers are interested in ascertaining whether a particular rate being charged is fair. This is partially the same concern that state regulators have with respect to ascertaining the validity of specific rates. Thus, if all state regulators would engage in such monitoring activity it would be unnecessary for insurance purchasers to duplicate their effort; the purchaser would need only assure that he is properly classified and that any rate deviations applied are appropriate.

However, since at present virtually no state insurance department actively makes such determinations, individual insurance purchasers should have some means of determining the accuracy of their rates. Presumably, this generally would not involve a complete actuarial review of the derivation of their rates. However, it would be appropriate to advise the

insurance buyer of the general rate applicable to the average risk engaged in a similar business (be it a manual rate or an (a)-rate), and any deviation or modification that the insurer may have made from that rate together with its reasons for so doing.

The principal disadvantage of this approach is that the insurance purchaser would have no means of ascertaining whether all similar businesses are subject to an unfair rate. However, to the extent that a manual rate is applicable, the potential for this occurring is greatly reduced. In the case of (a)-rates as presently constituted, the potential for an insurer's using an inappropriate (a)-rate as its starting point is considerably greater, since the initial setting of these rates is in large part dependent upon the judgment of ISO's underwriting committee. However, were our recommendation to use actuarially determined (a)-rates adopted,¹⁵ the potential for an inappropriate rate would be similarly reduced.

F. Other Observations.--The foregoing concerns will become especially significant in the ensuing consideration of product liability ratemaking, investment income, and state reporting statutes. As will be made manifest by our discussion of ratemaking and various rating techniques, ISO generally collects sufficient information to enable it to make appropriate rates. However, as will become evident from our discussion on investment income when taken together with our consideration of state reporting statutes, the statutes are generally ineffective in accomplishing their presumed purpose. As we conclude therein, if data indicating the overall profitability of writing product liability is desired, then the state reporting statutes presently in effect must be amended so that this information can in fact be ascertained.

FOOTNOTES FOR CHAPTER II

1. E.g., Hearings Before the Senate Comm. on Commerce, Science, and Transportation, 96th Cong., 2d Sess. (1980) (Statement of C. Thomas Bendorf, Director, National Affairs Office, Association of Trial Lawyers of America) (hereinafter cited as Bendorf Statement); Problems Associated with Product Liability Insurance, Hearings Before the Subcomm. on Consumer Protection and Finance of the House Comm. on Interstate and Foreign Commerce, 96th Cong., 1st Sess. 190-91 (1979) (hereinafter cited as Problems); Product Liability Insurance (Part 4), Hearings Before the Subcomm. on Capital, Investment and Business Opportunities of the House Comm. on Small Business, 95th Cong., 1st Sess. 1459, 1464 (1977) (hereinafter cited as LaFalce Hearings); Impact on Product Liability, Hearings Before the Senate Select Comm. on Small Business, 94th Cong., 2d Sess. 660 (1976).

2. See, e.g., LaFalce Hearings (Part 2), supra note 1, at 635 (Statement of Hartford Insurance Co.).

3. Bendorf Statement, supra note 1.

4. Insurance Services Office, Product Liability Closed Claims Survey: A Technical Analysis of Survey Results (1977) (hereinafter cited as Closed Claim Survey).

5. E.g., Fla. Stat. Ann. sec. 624.433 (Supp. 1980); Nebr. Rev. Stat. sec. 44-3, 124(6) (Reissue 1978) (closed claim survey); N.Y. Ins. Law sec. 167-e (Supp. 1979) (experience reports).

6. See Appendix D.

7. Problems, supra ch. II note 1, at 159-89.

8. See id. at 164-65.

9. Id. at 166-67.
10. See ch. VI, sec. A, para. 2 infra.
11. E.g., N.Y. Ins. Law sec. 180 (1966).
12. E.g., id. at secs. 93, 510-546 (1966 and Supp. 1979).
13. See Appendix C.
14. See Subcomm. on Capital, Investment and Business Opportunities of the House Comm. on Small Business, Product Liability Insurance, H.R. Rep. No. 95-997, 95th Cong., 2d Sess. 27 (1978) (hereinafter cited as LaFalce Report).
15. See ch. IV, sec. C, para. 3 infra.

III. INITIATIVES BY THE INSURANCE INDUSTRY AND STATE REGULATORS TO AMELIORATE PRODUCT LIABILITY INSURANCE PROBLEMS

A. Generally.--While our Final Report found deficiencies in the product liability ratemaking mechanism to be one of the principal causes of the product liability insurance problem, it should be noted that the insurance industry has taken and is continuing to take certain steps to improve this situation. Perhaps the most significant of these were amendments the Insurance Services Office made to its Commercial Statistical Plan, through which it gathers product liability experience. Two other initiatives are also worth noting at this point--the fast track reporting system and the market assistance program, each of which will be subject to discussion and analysis below. Finally, the National Association of Insurance Commissioners and a significant number of states have adopted special product liability insurance reporting requirements. These will be subject to an extended treatment in Chapters IX and X, infra.

B. ISO Initiatives--Amendments to Its Commercial Statistical Plan.--The Insurance Services Office is one of the principal statistical and ratemaking organizations for the property/casualty insurance industry. Moreover, it is virtually the only ratemaking organization which promulgates rates for product liability insurance. While its present ratemaking methodology is subject to more complete exposition and analysis in Chapters V and VI, infra, it is worthwhile to consider the initiatives that the Insurance Services Office has taken thus far to improve its ratemaking methodology. However, before so doing, a brief discussion of the practices that existed prior to 1974 would be helpful.

In order to determine product liability rates, ISO needs information relative to both exposures as well as losses. Were product liability insurance written either as a separate policy or with a readily ascertainable premium, this information would have been easily obtainable.

However, prior to 1974, only a small portion of all product liability insurance was so written, being broadly referred to as written on a "monoline" basis.¹ Monoline insurance was further divided into two categories--manually rated and (a)-rated insurance. The former category represented those classifications to which a rate published in the product liability rate manual adhered; the latter represented (and continues to represent) those classifications for which there is no statistically reliable rate due to either a paucity of reported experience or extreme variability of reported

experience. The remaining product liability experience was accounted for by "non-monoline" or "multiline" insurance. Generally, these were policies which provided for various insurance coverages of which product liability insurance was merely a part. Such policies were either commercial multi-peril or "package" policies (generally sold to small and medium sized businesses) and composite rated policies (sold to larger businesses). Composite rated policies included policies where a single rate was charged for a variety of exposures (which was a "composite" of various rates applicable to various exposures) and also included large (a)-rated policies and loss rated policies.

Prior to 1974, the only detailed exposure and loss information being collected was for monoline policies which were manually rated. For (a)-rated monoline policies merely summary experience was collected, and for commercial multi-peril policies and composite rated policies no separate product liability information was reported. The LaFalce Report provided the following breakdown of how total product liability premiums were then apportioned:²

manually rated (monoline)	less than 10%
(a)-rated (monoline)	less than 30%
commercial multi-peril policies	less than 30%
composite, loss rated and large (a)-rated	greater than 30%

From this breakdown, it is apparent that a significant amount of data--approximately 90 percent--was escaping ISO's product liability ratemaking system. Taking cognizance of this, ISO has made a number of changes to its data collection procedure which, in the aggregate, will result in a tremendously improved data base.

During 1974, ISO amended its statistical reporting requirements for the (a)-rated classifications to require detailed data with respect to the product liability experience of these classifications. ISO has stated that:

"As a result of this change these data are now being reported to ISO and it is now possible to review (a)-rated classes using the same actuarial procedures as are used for the manual rated classes."³

Moreover, in 1974, ISO revised its product liability classification system to delete approximately 20 of the then existing classifications, replacing them with over 220 new ones which "provide more precise definitions of types of product risks."⁴

As ISO's 1974 revisions did not address commercial multi-peril policies, nor the various forms of composite rating, the experience represented by approximately 60 percent of product liability premiums continued to escape ISO's analysis. Accordingly, on January 1, 1977, ISO "amended the eligibility requirements under its Composite Rating Plan to eliminate product liability coverage from the composite rate. Consequently, for composite rated risks (with the exception of large (a)-rating and loss rating) the product liability exposure must be separately identified, rated, recorded, and reported."⁵

Finally, ISO addressed the problem of commercial package policies by further amendments to its commercial statistical plan. These amendments require the detailed reporting, by classification, of exposure units, premiums, losses and claims for coverage written under such policies.⁶

While the full effect of all the foregoing amendments made by ISO will not be realized for several years, it is apparent that they represent substantial improvements over the practices that existed prior to 1974. At present, the only product liability experience for which ISO does not obtain detailed reports is accounted for by large (a)-rated and loss rated policies. This continued omission is discussed in more detail at Chapter IV, infra.*

C. National Association of Insurance Commissioners.

1. Generally.--The National Association of Insurance Commissioners (the "NAIC") is responsible for three initiatives, two of which--product liability fast track reporting--and the market assistance program--will be subject to discussion below (its remaining initiative, the supplement to the annual convention statement, will be separately addressed at Chapters IX and X, infra).

* ISO also undertook a Closed Claim Survey which analyzed claims that were finally settled or adjudicated during an 8 1/2 month period spanning 1976-1977. This most valuable reference work has been subject to extended treatment elsewhere, and is thus not discussed herein. See, e.g., Final Report, supra Preface note 3, at V-29 to V-33; LaFalce Report, supra Ch. II note 14, at 32-34; LaFalce Hearings (Part 3), supra Ch. II note 1, at 1301-41.

2. Market Assistance Program.--The NAIC sponsored the Market Assistance Program ("MAP") as a device to assist companies that found product liability insurance unavailable.⁷ As this program has often been cited as an illustration of the insurance industry's voluntary response to the product liability problems,⁸ a brief consideration of its functioning is appropriate.

In 1975, in view of the burgeoning difficulties with respect to product liability insurance, the NAIC appointed a product liability task force. As a result of the efforts of that task force, together with its industry advisory committee, the MAP was born. It was patterned after a voluntary program implemented in Connecticut which assisted in alleviating availability problems.

The MAPs were created on a state-by-state basis. Generally, they were structured with two committees: A producers' committee first provided initial screening and undertook market location efforts for risks which could not obtain product liability insurance. If the efforts of this committee failed to yield an insurer willing to write the risk, the risk was then forwarded to an underwriting committee, which consisted of representatives from the participating insurers. This second committee was able to deal directly with their insurers to ascertain whether a suitable accommodation could be made.

Ultimately, MAPs were created in approximately 27 states. The size of the various committees, as well as the number of applications considered, varied from state to state. Moreover, several states charged applicants fees which ranged as high as \$500 in New Hampshire. At least one state required a \$700 contribution from each participating insurer. While various attempts have been made to assess the effectiveness of the MAP program, it must be borne in mind that it was designed to address problems of unavailability. However, virtually all government bodies and agencies to consider the product liability problem, and the insurance industry itself, have concluded that unavailability of product liability insurance was not a widespread difficulty. This explicit finding was made by the LaFalce Subcommittee, which also found that "many firms are unable to afford product liability insurance, as a result of which they are either going without it, or paying for it and sustaining resulting hardship."⁹ Implicitly, it was confirmed by the House Committee on Interstate and Foreign Commerce and ultimately the full House of Representatives in their approval of the Product Liability Risk Retention Act.¹⁰

The NAIC and the American Insurance Association have prepared reports on 1977 and 1978 MAP activities.¹¹ These reports indicate that of approximately 800 applications that were considered, almost half were placed. However, as a result of the reporting format and terminology, its 50 percent "favorable action" ratio may be overstated. Apparently, "favorable action" was deemed to exist so long as a quotation for product liability insurance was obtained, regardless of whether the quotation was accepted.

Moreover, as a result of the relatively scant use of the program--approximately 800 firms--the conclusion appears inescapable that by focusing on unavailability, rather than unaffordability, the program's overall impact on product liability problems was negligible. This conclusion is confirmed, in part, by the Illinois MAP committee's report which indicated that it "would appear to indicate that the problem in this line (product liability) is price rather than availability."¹²

Further, for those risks for which the MAP located markets otherwise unavailable, the program appears to be compensating for the initial producer's limitations, and not the risk: The MAP finds an insurer by exploring available markets; in this regard, insureds have expressed concern that they must pay a fee to have a group of producers assist their producer to do the job for which their producer will be paid a commission. This concern is perhaps well taken; in the overwhelming majority of cases, placements were ultimately located with licensed commercial insurers, rather than through surplus lines insurers or reinsurers.¹³ Since 1978, it appears that there has been a significant decline in MAP applications; in many states, the MAP machinery has been idle or dismembered entirely. This is undoubtedly due to the so-called "softening" of the product liability market during the last several years.

The MAPs do leave a legacy which may be beneficial: Small agents and brokers may be more apt to seek assistance in placing their more difficult risks. Presumably, such assistance can be provided in the ordinary course of the functionings of the insurance marketplace.

3. Fast Track Monitoring System.--This is a program developed by the NAIC "for the purpose of providing regulators with a sampling of significant data by line of insurance at the earliest practical date."¹⁴ Initially, it was developed as a means for monitoring private passenger automobile liability insurance data during late 1973 and early 1974. It has since been expanded to include miscellaneous liability which is reported by subline and thus includes product liability insurance.

In so far as the product liability insurance subline is concerned, the ISO serves as the statistical agent. It has described the operation of the fast track monitoring system as follows:

"Data is submitted by participating companies 45 days following the close of the period. The data is expected to be processed and made available to regulatory authorities ... within 75 days after the end of each quarter for (product liability insurance)."¹⁵

There are at present nine insurers furnishing product liability information:

Aetna Life and Casualty Group
Continental Insurance Companies
Hartford Group
CNA Group
Commercial Union Insurance Companies
Fireman's Fund Insurance Companies
Reliance Insurance Company
United Pacific Insurance Company
Kemper Insurance Group

Essentially, the fast track reporting collects data for product liability insurance with respect to earned premiums and incurred losses, and computes a loss ratio based thereon. In this connection, incurred losses include "total limits losses paid during the quarter plus the change in outstanding loss reserves,"¹⁶ as well as allocated and unallocated loss adjustment expenses which include "adjustment for change in reserves for losses incurred but not reported."¹⁷

ISO has indicated that the fast track data may, as a result of its timeliness, "give some additional insight into the current ratemaking experience. By comparing recent fast track loss ratios with those for corresponding earlier periods, the existence of possible loss trends may emerge."¹⁸ ISO continues:

"Therefore, an improving loss ratio might be viewed as a positive indicator and imply expansion, whereas an increasing loss ratio could imply the opposite. A comparison of the collected loss ratios appearing on Fast Track reports with expected loss ratios would indicate whether, for the companies included in Fast Track, profits were higher or lower than expected. In addition, since the loss ratio data is analogous to the Page 14 Annual Statement experience, it serves as an early indicator of Page 14 results."¹⁹

Nevertheless, ISO observes that there are several limitations inherent in the fast track data, including the fact that the reports represent merely a sample of the entire industry, and not the experience of the actual industry; that as a result of the accounting methodology used, loss ratios would not properly reflect results for companies with either increasing or decreasing books of business, since premium data is reflected prior to loss data; that earned premiums included are those actually collected and thus relate to all policy limits combined; that since total limits losses are included, "the experience is not generally comparable to ratemaking statistics";²⁰ and that distortions can arise as a result of "changes in loss reserve margins of companies."²¹

Implicit in this last limitation--"changes in loss reserve margins"--is acknowledgement that the inclusion of incurred but not reported ("IBNR") amounts, as determined by the companies in the reported loss ratios may effect distortions. As the LaFalce Report suggests, IBNR is neither a function of paid and reserve claims, nor is it always a function of earned premiums.²² ISO deems insurer estimates of IBNR as being so unreliable that it does not collect them from its reporting insurers: Rather, it computes its own loss development factors to take into account these amounts. Thus, it would appear that the inclusion of IBNR in the fast track reporting is a most important limitation on the utility of this information.

Nevertheless, as a result of the significant time lags occasioned in the compilation of policy year data by ISO, it would appear desirable to obtain the most reliable information as rapidly as possible. In this connection, and subject to the earlier limitations on the use of this data, we recommend that the use of the fast track monitoring system be continued. However, we would urge that, to the extent that losses consist of IBNR, such losses be reported separately for purposes of the fast track system. We believe that by so doing, regulators may gain greater insights into the present adequacy of product liability rates for the reporting companies. Nevertheless, and even were this recommendation adopted, it should be stressed that we believe that no decision with respect to the adequacy or inadequacy of industry-wide rates should be based upon this information as a result of its inherent limitations.

FOOTNOTES FOR CHAPTER III

1. See Final Report, supra Preface note 3, at V-56.
2. LaFalce Report, supra ch. II note 14, at 15.
3. Problems, supra ch. II note 1, at 166-67.
4. Id. at 166.
5. Id. at 167-68.
6. See id. at 167-69.
7. See LaFalce Hearings (Part 2), supra ch. II note 1, at 981.
8. E.g., id. at 971.
9. LaFalce Report, supra ch. II note 14, at 70.
10. 126 Cong. Rec. H1671-84 (daily ed. March 10, 1980).
11. See LaFalce Hearings (Part 4), supra ch. II note 1, at 1452-59 (reprinting 1977 AIA Report).
12. Memorandum by MAP-Illinois (The Temporary Illinois Products Liability Assistance Program) 2 (Dec. 8, 1977).
13. See LaFalce Hearings (Part 4), supra ch. II note 1, at 1452-59.
14. Memorandum by Insurance Services Office Describing Fast Track Monitoring System 1 (Available in Department of Commerce Law Library).

15. Id.

16. Id. at 2.

17. Id.

18. Id. at 3.

19. Id.

20. Id. at 4.

21. Id.

22. LaFalce Report, supra ch. II note 14, at 28-29.

IV. RATING TECHNIQUES

A. Introduction.--The starting point for the determination of the product liability premium for a particular risk will, with the exception of loss rating described below, begin with the product liability rate manual.¹ This manual classifies risks into 417 classifications, which are based on type of business rather than product sold. Of these classifications, 287 are assigned in the manual what is referred to as a "manual rate."² The remaining 130 classifications are not assigned a rate; rather, in the place where the rate would appear there is instead the symbol "(a)". Appropriately enough, these latter classifications are referred to as "(a)-rated classifications," or "judgment rates" because the actual rate charged will be determined by the insuring company. These are discussed in greater detail at section C, infra.

Three other rating techniques bear mention at this point: loss rating, large (a)-rating and Rule 24H rating. Generally, loss rated policies are available only for those risks which generate losses of at least \$200,000 over a three year period, with the ultimate rate dependent upon the risk's actual losses; large (a)-rating is available only for risks which generate a basic limits premium at manual rates of at least \$100,000, which may then be judgment rated; and Rule 24H rates provide that the "premium in excess of \$1,000 per annum for risks producing an annual premium of \$1,000 at basic limits shall be (a)-rated." These three methodologies are discussed in detail at section D, infra. However it is impossible to discuss these different rating techniques without first considering the ISO classification methodology.

B. Classifications.

1. Generally.--As has been indicated, ISO uses 417 classifications, of which 130 are (a)-rated, with the balance being manually rated. These classifications ("industrial classification codes") are not by product, but rather by type of business or industry. They generally follow, but are not identical to, the classification methodology used by the Federal Government in its Standard Industrial Classification ("SIC") codes.³ In the product liability manual, a product liability rate for BI and PD is assigned to each industrial classification code, unless the classification is (a)-rated, in which case the symbol "(a)" appears adjacent to the code number.

These classifications certainly meet our contractor's definition of a risk classification system:

"... any subdivision of the total product liability insurance rating and pricing processes created to permit the evaluation of actuarially credible differences in individual expected loss costs. The primary intent of such a system is to promote equity to individual insurance buyers by assessing upon each classification an insurance rate commensurate with the expected losses and risk of that classification."⁴

Our contractor further observes the two principal objectives of risk classification systems:

"a. Each classification should contain a sufficient amount of data to permit a statistically reliable, or credible estimate of the expected losses for that classification.

"b. Each classification should be homogeneous* in terms of statistical attributes such as claim frequency and the distribution of claims by size."⁵

Our contractor observes that these are competing objectives: The first suggests "large numbers of exposures in each classification," while "the second suggests the maximum number of classifications."⁶

Since the ISO industrial classifications codes are strikingly similar to the SIC methodology, the latter may suggest improvements that may be made in the ISO procedure.

2. Standard Industrial Classification Codes.--Classifications by SIC codes can run the gamut from the very broad down to the very specific. Increased detail is obtained by successively adding digits (starting with a two digit code for a major industry group) to achieve the desired detail. An example will help illustrate: Code "34" consists of the major industry group--fabricated metal products, except machinery and transportation equipment; code "349" (note the addition of the "9") is the industry group--miscellaneous fabricated metal products; code "3494" (note the addition of the "4") is the industry--valves and pipes fittings; code "34947" (note the

* Note that by homogeneous statistical attributes, our contractor means that variability among risks within a classification are statistically characterized as "random"; it does not mean that frequency or loss size is identical for all risks.

addition of the "7") is the product class--automatic,regulatory and control valves; and code "3494705" (note the addition of the "05") is the product--automatic regulatory and control valves--pneumatic actuated.

Note the advantages of this classification system: If data is collected at a specific level of SIC code (e.g., a five digit code), the corresponding data for a more general classification (e.g., a four digit code) can be found merely by adding the data compiled with respect to all specific codes, the first digits of which correspond to the more general code. However, the specific cannot be found by the general (i.e., it is impossible to separate the components of any level of classification).

3. Comparison of ISO Methodology and SIC Methodology-- Apparently the ISO classification system--their industrial classification codes--are generally comparable to the first three digits of the SIC methodology. For example, SIC classification "394" refers to the industry of toys and sporting goods. ISO's ICC codes

<u>39413</u>	Toys (manufacturing)
<u>39493</u>	Playground or exercise equipment (manufacturing)
<u>39496</u>	Sporting Goods (manufacturing)

are all, at some level of detail, included in the SIC designation "394." Specifically, ISO has "broken out" SIC code "3949"--Sporting and Athletic Goods, not elsewhere classified, and "39494"--Playground, Gymnasium, and Gymnastic Equipment, for special treatment. However, ISO has not distinguished among other four digit SIC codes, the experience for which is included in the broad ICC category 39413:

3942	Dolls (including stuffed toy animals)
3944	Games, toys, and children's vehicles

Similarly, ISO has shunned other detail collectible at the five digit SIC code level:

39420	Dolls and stuffed toy animals
39411	Games, excluding toys
39443	Baby carriages and children's vehicles, except bicycles

- 39444 Toys, excluding games and hobbies
- 39445 Hobbies, models, crafts, instructional kits, scientific equipment in kit or set form
- 39491 Fishing tackle and equipment
- 39492 Golf equipment

The significance of the foregoing exercise becomes apparent when one considers the stated justification for ISO's (a)-rates:

"The inherent variation and hazard among insureds defined by the same (a)-rated classification precludes the establishment of a manual rate for such classes. By definition, a manual rate is appropriate for a class comprising homogeneous risks, that is, risks which can reasonably be expected to have loss costs that are not significantly different from the average on the basis of their inherent hazard differences. (Of course, in any given experience period, the actual loss costs may vary from one risk to another based on fortuitious occurrences.) On the other hand, the risks that are represented within each (a)-rated classification differ widely in the hazard or expected loss costs that each presents.

"A good example of the (a)-rated class is toys. It is intuitively obvious, for example, that manufacturers of stuffed animals present different risks than manufacturers of popguns. In addition, different toy companies may have different degrees of design capability, resulting in differences in hazard. Because of the importance of these and other similar factors, rates are determined for each of these risks separately, based upon judgment and knowledge of all the characteristics peculiar to the individual risks.

"While it is theoretically possible to further subdivide and refine a classification plan to eliminate heterogeneous or (a)-rated classes, such a system has obvious practical limitations."⁷

Were ISO to substitute the SIC code methodology to five digits for its present industrial classification codes, it could collect data in a fashion that enables it to ascertain (1) whether experience was homogeneous at the product group, industry, and industry group level; and (2) whether there is sufficiently credible experience at any of these levels to warrant a manual rate. We are unaware of any "practical limitation" that would inhibit implementation of this methodology.

It should be emphasized that we are not recommending that rates be established at the product class level (i.e., five digit SIC code); rather, we are merely recommending that experience be collected at that level. Manual rates, if the experience permits, will be established at the greatest level of detail possible. Similarly, (a)-rates, to the extent warranted, can also be established at the most appropriate level of detail the experience warrants.

The advantages of the use of SIC codes may be illustrated, again by the toy example. ISO's ICC classification 39413--toys--is presently (a)-rated as a result of the non-homogenous character of the class. However, the experience of doll and stuffed toy manufacturers, if isolated, may be homogenous and at least partially credible so as to warrant a manual rate. However, under its present classification methodology, ISO has no way of so determining. Were this experience collected separately (under the five-digit SIC code methodology) such a determination could be made.

It should also be noted that in its most recent circular revising (a)-rates, ISO recognizes that many of its industrial classification codes include varying risks. For example, code 59993 includes the following, with the (a)-rate assigned varying as indicated below:⁸

<u>Description</u>	<u>Rates BI</u>	<u>Rates PD</u>
Antiques, bric-brac or curio stores	.15	.05
Art galleries	.15	.05
Artist supplies-retail	.25	.10
Auction galleries or stores	.50	.15
Automobile dismantling--including salvage or junking of parts and store operations	1.00	.30
Automobile sales agencies	1.00	.25
Books or magazines stores--second hand	.15	.05
Dry goods--retail	.15	.05
Gas dealers--retails	.50	.25
Hobby or model makers supplies--retail	. 25	.10

Newsstands	.15	.05
Painters or paper hangers supplies--retail	.25	.10
Ship chandler stores	.50	.15

While it is laudable that in the setting of (a)-rates ISO has seen fit to distinguish among many of the aforementioned descriptions, ISO is not collecting data in a fashion to enable it to ascertain whether the distinctions it is making are valid. It is suggested that the CSP collect the experience from the subclassifications such as those set forth above in detail sufficient to enable ISO to determine (1) their validity, and (2) whether a manual rate may be warranted.

It should be noted that neither the present ISO classification system, nor the method of classification proposed herein, classifies at the individual product level. ISO presently classifies on the basis of either industry group, industry, or product class; the proposed data collection would be on the basis of product class. We have avoided recommending groupings on the basis of individual products for several reasons. First, product liability insurance is sold to businesses to cover the products that they sell: Few product sellers purvey a single product, whereas they are more apt to sell a variety of related products. Secondly, as a result of the numerous products on the marketplace, classification by product would unnecessarily result in thousands of product classifications, thereby adding undesirable confusion for the agents and brokers marketing product liability insurance. Further, stratification at the product level would quite likely result in a dearth of reported experience for many products. Finally, reporting at the product level would require purchasers of product liability insurance to account for their sales to their insurers on a product basis (since premiums are a function of sales), a task which in many instances may be extremely difficult.

C. (A)-Rates.

1. Generally.--Unlike manual rates, (a)-rates are not actuarially determined. ISO has stated:

"In order to provide some guidance for its members, ISO does send to its affiliated insurers suggested (a)-rates, developed by ISO staff and company underwriters serving on ISO committees. These suggested (a)-rates are intended only as a guide, however, and an individual insurer may or may not choose to distribute these suggestions to its agency force."⁹

Until May of 1974, exposure data with respect to (a)-rated classifications was not collected; as of that date, ISO amended its reporting requirements and now routinely gathers exposure data with respect to these classifications..

ISO has described this change in the effect of reporting as follows:

"... (I)n developing suggested (a)-rates in the past, the judgment of company underwriters and ISO staff was a much more significant factor than the actual experience by class....

"As a result of (the changes in the reporting requirements) these data are now being reported to ISO and it is now possible to review (a)-rated classes using the same actuarial procedures as are used for the manually rated classes."¹⁰

Nevertheless, as was discussed in section B, supra, it is believed that the present classification methodology results in (a)-rating in instances which otherwise might be eliminated were the recommended detailed classification methodology adopted.

It should also be observed that despite ISO's limited distribution of its (a)-rates, most subscribing companies use them in rating product liability risks.¹¹

Regardless whether the present classification methodology were improved, some (a)-rating would likely persist. Thus, it is appropriate to analyze ISO's methodology to determine whether improvements are warranted in its (a)-rating system.

At present, ISO's (a)-rates are contained in a document entitled "Chief Executive Circular" which is provided to the Chief Executive Mailing List of its subscriber companies. The circular contains the following caveat:

"You should not consider these suggested (a)-rates as either maximums or minimums." (Emphasis in original.)¹²

The circular contains alphabetized descriptions of risks, together with their ICC number. For each of the descriptions contained in the circular, there is a single rate for bodily injury ("BI") and a single rate for property damage ("PD"). However, in several instances, more than one rate is assigned to the same ICC number--for different descriptive phrases. Also, in a few instances, no rate is assigned to a particular description.

2. Can (A)-Rates Be Actuarially Analyzed?

Notwithstanding the collection of exposures, it appears that ISO does not attempt to assure that in the aggregate, the guide (a)-rates will produce the required level of premiums. Regarding such an actuarial analysis with respect to these advisory rates, our contractor has stated as follows:

"Advisory classifications are now included in the classification review as a newly erected principal sub-group. This is an important step, but there remain two primary limitations on the utility of these data. First, only two years of experience are currently available in general because exposure data was not required to be reported for advisory classifications until 1974. Second, the determination of premiums at present rates requires the selection of such present rates. Only the advisory rates are available for use as implicit charged rates, since the current actual rates representing the practices of various companies cannot be determined."¹³

Despite the contractor's suggestions to the contrary, we believe that the present experience with respect to (a)-rated classifications being reported to ISO is sufficient to enable a more equitable rating of (a)-rated classifications than is presently the case.

First, in response to the alleged limitations on the data use, we observe that merely the two most recent years are used in determining the aggregate rate adjustment for manual basic limits rates. Further, for many manual ICC's merely two years of experience is present, with credibility for that ICC being determined accordingly. Thus, the fact that there is only two years of data presently available for most (a)-rated classifications should not pose a bar to the use of this data for actuarial analysis. We also note that this is a temporary limitation that will be remedied merely by the passage of time as more reports become available.

Our response to the contractor's second perceived limitation, however, is more complex. While we can appreciate the ISO argument that (a)-rated classifications are those classifications with a high variability of loss experience, with no single rate being appropriate to all risks contained therein, we remain unpersuaded that it is not possible to validate (a)-rates actuarially. Presumably, the rate that ISO provides in its circular is intended by its underwriting committee to reflect the average rate for the average risk. Thus, it can be tested via a methodology similar to that used for basic limits rates.

Note that the contractor's suggestion that the rates actually charged be tested is inappropriate: Basic limits manual rates are not determined upon the basis of rates actually charged. While presumably manually rated risks are charged the manual rates, there are several permitted exceptions, which will be discussed at section D, infra, including schedule modifications, experience modifications, and Rule 24H rating. Nevertheless, and this is most important, for purposes of determining manual rates, the rate actually charged is not taken into account in the ratemaking methodology; the experience of a risk which has been rated with an experience modification, a schedule modification, or under Rule 24H will be taken into account in the ratemaking process as if the risk were manually rated and the manual rate charged. We believe this methodology to be valid: Were actual rates used instead, ratemaking would then be dependent upon how good subscribing insurers were at estimating the proper rate; this would add considerable uncertainty to the overall ratemaking process.

3. Actuarial Analysis Of (A)-Rates.--(A)-rates are not rates in the true sense of the term--they are mere suggestions by ISO as to the appropriate rate to be charged with respect to a particular classification.

Nevertheless, since the suggested (a)-rates are generally used as a starting point in rating (a)-rated risks, the Task Force undertook an analysis to determine their propriety.

ISO made available its Compilation as of policy year ending December 31, 1976 (policy year 1975). This provided us, for each (a)-rated classification, with exposure data and basic limits incurred loss data, for policy years ending December 31, 1975 and 1976. ISO has also made available to us their Chief Executive Circular, revising product liability (a)-rates as of November 30, 1979. Accordingly, we were able to analyze the exposure and loss data in view of the present level of basic limits (a)-rates for BI. In so doing, several assumptions were necessary.

First, we assumed for each industrial classification code which was assigned only one (a)-rate, that such rate represented the average rate applicable to the average risk in such classification. In other words, while all risks in a particular classification would not necessarily be subject to the same rate, it was assumed that the sum of the basic limits premiums generated by all risks in a classification will generate a premium equal to the (a)-rate multiplied by the number of exposures within the classification.

For several ICC's, the circular provided multiple rates which varied based upon the product description. While these principally involved NOC ("not otherwise classified") categories, this was not exclusively the case. In determining the rate to be applied to exposures for these categories, we applied the following methodology: We first determined the "principal description" of the ICC from the General Liabilities Statistical Plan, Part II--Codes, and found in the circular the rate applicable thereto. (This was always a single rate; never a range.) Next, we found the high and low (a)-rate applicable to the various descriptions for a given ICC. We assumed that the average rate for such an ICC was the lesser of (1) the rate assigned to the principal description; or (2) the average of the high and the low rate applicable to the ICC.

Finally, there were several classifications for which it was impossible to assign a rate. These included classifications for which an "(a)" appeared in the circular (as well as the manual); certain discontinued operations classifications, and other classifications where the rate was dependent upon the rate to which the manufacturer was subject. These were accounted for separately.

Essentially, our methodology followed that used for basic limits manual rates. We developed and trended incurred losses, and trended exposures. In this connection, we used the same trend and development factors applicable for manual basic limits rates, as it was impossible for us to determine separate development and trend factors applicable to (a)-rates*. (Note

* All trend adjustments were made assuming an effective date of September 1, 1979 with the trending undertaken to one year beyond that date. Losses for policy year ending December 31, 1975 were developed to maturity by a factor of 1.274, and trended by application of a factor of 2.136; losses for policy year ending December 31, 1976 were developed to maturity by a factor of 1.781 and trended by application of a factor of 1.781. Exposures for policy years ending December 31, 1975 and December 31, 1976 were trended by the application of the factors 1.399 and 1.314 respectively. Losses shown in Chart 1 (but not in Appendix A) were also developed by a factor of 1.085 to include unallocated loss adjustment expenses.

that the hypothesis that the same trend and development factors applicable to manual rates should apply to (a)-rates is not dissimilar to the methodology used by ISO in its computation of excess limits factors: ISO aggregates the experience for manually and (a)-rated classifications and computes development and trend factors applicable to both.) We then applied the average (a)-rate to the exposures to produce projected premiums, from which we were able to determine projected loss ratios. Chart 1 sets forth a summary of our analysis.

Chart 1***

(A) - RATED EXPERIENCE

<u>Description</u>	<u>Premiums**</u>		<u>Losses**</u>		<u>Loss Ratio**</u>		
	<u>1975*</u>	<u>1976</u>	<u>1975*</u>	<u>1976</u>	<u>1975*</u>	<u>1976</u>	<u>Total*</u>
With a single rate per ICC.	57.012	77.736	28.238	21.455	.495	.276	.369
With multiple rate for ICC's	75.273	91.325	24.951	24.270	.331	.266	.295
Subtotal	132.285	169.061	53.190	45.725	.402	.270	.328
Miscellaneous Losses (premiums not determinable):							
Losses, no exposures			0.103	0.000			
Losses, no rate, (a)-rate, D.O., % of other product seller's rate (except ICC 37101)			3.482	2.244			
Losses, ICC 37101			81.365	119.248			
Losses, Dump codes and discontinued codes			18.432	17.305			
Total Losses			156.572	184.522			

* The policy year December 31, 1975 data has a possible error source: The present definitional scheme for ICC codes was placed in effect May 30, 1974; from January 1, 1974 to May 29, 1974, a similar scheme was in effect. However, in several instances, the same ICC number used in the earlier scheme was assigned to a different description in the later scheme, resulting in 1975 data representing experience from two descriptions. However, the effect on the overall results is believed minimal.

** Premiums (trended) and losses (trended and developed together with provision for unallocated loss adjustment expenses) in millions of dollars, data for policy years ending December 31, 1975 and December 31, 1976.

*** See Appendix A for the derivation of this Chart.

Observe that for those subgroupings where we can determine loss ratios, they are significantly below the standard of .57, indicating that (a)-rates have been established at levels that could be considered higher than appropriate. Specifically, it would appear that based upon projections from the experience for policy year ending December 1975, a rate reduction of 29.5 percent is warranted;* even more dramatically, based on policy year ending December 1976, a rate reduction of 52.6 percent** is indicated. If these ratios are weighted 30-70 percent--for policy years ending 1975 and 1976 respectively--as they are for basic limits rates, the indicated rate reduction would be 45.7 percent.

Note also that ICC 37101 has losses which exceed the losses for all other classifications, including dump codes and discontinued classifications. This classification continues to be (a)-rated, even in the circular. Subject to the caveat that the experience for ICC 37101 is not 100 percent credible, it should be noted that the required rate to produce a loss ratio of .57 would be \$173 for policy year ending December 31, 1975, and \$273 for policy year ending December 31, 1976. It should also be noted that the guide (a)-rate for this classification from January 21, 1977 until the revised circular went into effect on November 30, 1979 was merely \$4 to \$10.¹⁴ As a result of this huge discrepancy, it is suspected that to a very significant extent all other (a)-rated classifications cross subsidized the experience of ICC 37101.

Due to the sheer magnitude of the basic limits BI losses sustained by ICC 37101--which for policy year ending December 31, 1976 are equal to 99.83 percent of all other product liability basic limits BI losses reported to ISO (including manual and (a)-rated)*** when trended and developed to maturity--it would appear that this experience should not be included with either (a)-rated or manual rated aggregate experience in determining the appropriate product liability rate levels: It would seem that year to year variations in the loss experience of this classification would, if spread among

* Percent Rate Decrease = $1 - (\text{Loss Ratio}/.57)$
 29.5 = $1 - (.402/.57)$

** 52.6 = $1 - (.270/.57)$

*** 99.83% = $119.248 / (184.522 + 54.183 - 119.248)$

the other classifications, unduly affect their rate level (assuming of course that ICC 37101 lacks 100 percent credibility). It should, for the reasons underlying ISO's segregation of large (a)-rated experience, be accounted for separately.

From ISO's credibility analysis furnished to New Jersey, it appears that it has assigned a credibility of .55 to ICC 37101. If (a)-rates are to be established in a manner so that the expected losses would equal 57 percent of the premiums, this would result in all other classifications, to the extent that they lack credibility, sharing in ICC 37101's loss experience, which, based upon the 1977 guide (a)-rates, is not being provided for in an adequate amount.

So as not to create an erroneous impression, apart from ICC 37101, there are other (a)-rated classifications which are not generating sufficient premiums at present rates, even were credibility (as determined from the New Jersey filing) taken into account. These include:

Chart 2

(A)-RATED CLASSIFICATIONS GENERATING INSUFFICIENT PREMIUMS

<u>ICC</u>	<u>Description</u>	<u>2 Year Loss Ratio</u>	<u>Credibility</u>
19612	Ammunition mfg. (handguns, rifles, etc.)	1.215	.25
25104	Infant furniture mfg.	1.269	.55
28301	Drugs, sales for annual use--N.O.C.	2.652	.18
28901	Adhesives & adhesive tapes	2.652	.18
35603	Ball or roller bearing mfgs.	1.683	.22
36906	Power equipment--household type mfg. N.O.C.	1.120	.39

In all events, implicit in our methodology is the belief that (a)-rates should, in the aggregate, be set at a level which balances projected premiums with projected incurred losses among (a)-rated classifications. This will help assure that, in the aggregate, (a)-rated risks are priced at an appropriate level. This recommendation is not intended to derogate the insurers' ability to deviate from the published guide rates. Rather, it is merely directed at ISO to assure that its subscribing insurers have available an appropriate starting point on their rating of (a)-rated risks.

4. Miscellaneous Recommendations with Respect to (A)-Rates.-- We suggest that two other modifications to the present methodology with respect to (a)-rates be considered by ISO.

First, assuming that the guide (a)-rate represents the average rate for the average risk, there is presently no indication as to the breadth of the average (e.g., does the rate include most risks, few risks, no risks?). It would appear that ISO now has the capacity to provide more detailed information than a mere suggested rate. For example, a range of rates could be provided for each ICC which would give subscribing insurers an indication of the variance within a particular ICC. This would facilitate a more equitable rating for specific (a)-rated risks.

Note also that, if (a)-rated classifications were assigned ranges of rates as was recommended, with the mid-point representing the average rate for an average risk, this would not alter the ability of ISO to trend, develop, and adjust them in a fashion similar to manual rates.

Secondly, we repeat our recommendation made with respect to the expense loading of manual rates: Rather than have ISO include an aggregate of 43 percent for expense load in its published guide (a)-rates, these guide rates should not take into account any expense loading provisions. Each individual insurer could build in to its rate structure the appropriate factor necessary to take into account its levels of expenses.¹⁵

5. Use of (A)-Rates by Insurers.--It is inevitable that were the recommendations made herein adopted, (a)-rates would continue to exist. In order to promote more equity in their use, we recommend that each insurer maintain in its underwriting files sufficient information and data to ascertain the following:

1. The reasons that the high and/or low end of the range were used, if the rate employed with respect to a specific risk falls within the proposed guide range;

2. The impact each such reason has on the overall deviation, if the rate charged falls outside the guide range, each of the reasons warranting the use of a different rate, and to the extent feasible.

We also urge that the foregoing information be made available to each prospective insured prior to the issuance of any product liability insurance policy. This will provide the insured with the opportunity to correct any misinterpretation or misinformation with respect to its risk, as well as to "shop elsewhere" in the event that the prospective insured believes the deviations are not warranted.

D. Other Rating Plans.

1. Generally.--In addition to manual rates and (a)-rates, there are three other means by which product liability rates can be determined. These include loss rating, large (a)-rating, and rating under Rule 24H. Each of these will be discussed in detail below.

It should be noted that formerly product liability insurance could be provided under composite rating (other than loss rating and large (a)-rates) or as an integrated part of a commercial package policy. However, since rating in this fashion did not provide separate product liability data, ISO (1) on January 1, 1977 "amended the eligibility requirements under its composite rating plan to eliminate product liability coverage from the composite rate";¹⁶ and (2) amended its Commercial Statistical Plan to require package policies to provide "the complete coding in classification detail of exposure units, premium, losses and claims..." for product liability coverage.¹⁷ Thus, with respect to product liability insurance presently being written, the experience relating to composite rating (other than loss rating and large (a)-rating) and package policies is presently included in the ISO data base.

2. Loss Rating.--This is a rating technique (a type of composite rating) which deems a particular risk's experience to be 100 percent credible. Thus, the actual rate charged is totally dependent upon the risk's prior loss experience.

Accordingly, use of this rating requires that a risk have experienced significant losses over the previous three year period. Generally, the amount of coverage is tied to these historic losses as follows:¹⁸

Per Occurrence Limits
(Applies separately to
BI and PD)

Three Year Incurred Losses
Needed for Eligibility

\$ 10,000	\$ 200,000
\$ 50,000	\$ 850,000
\$ 75,000	\$1,250,000
\$100,000	\$1,650,000

Generally, loss rating includes all general liability, and is not limited to product liability insurance.

3. Large (A)-Rating.--This form of rating, popularly referred to as large (a)-rating, is a type of composite rating which continues to be effective, despite the general prohibition on composite rating product liability insurance. Essentially, large (a)-rating is available as follows:

"Risks developing \$100,000 or more annual manual basic limits premium for automobile liability, general liability, glass and theft insurance, individually or in combination for the exposures to be insured may be (a)-rated."¹⁹

In other words, if the basic limits premium (number of exposures multiplied by manual rate) exceeds \$100,000, then a rate other than the manual rate may be charged. It should be noted that in making the determination as to whether the \$100,000 threshold is exceeded, the premiums for insurance other than product liability (if being purchased) can be taken into account. Specifically, the determination is made with respect to the manual basic limits premium for automobile liability, general liability, and glass and theft insurance.

If insurance is rated in this manner, then it is reported to ISO as a separate subline. In other words, ISO does not capture the detailed product liability experience by ICC attributable to the risk; it would capture only the summary general liability experience.

Note that the way this rule is written, it substitutes the (a)-rate for the manual rate; however, since the risk would, but for this rule, be manually rated, there is no ISO guide (a)-rate to substitute in its stead. In other words, by providing that such a risk may be (a)-rated, ISO is merely permitting its subscriber insurers to charge whatever rate they determine to be appropriate.

4. Rule 24H Rating.--Rating under this rule is similar to large (a)-rating. The full text of the rule, which is set forth in the commercial lines manual, provides:

"The total products liability premium in excess of \$1,000 per annum for risk producing an annual premium of more than \$1,000 at basic limits shall be (a)-rated."²⁰

In other words, if the basic limits manual product liability premium (for BI plus PD) exceeds \$1,000, then the excess over \$1,000 is to be (a)-rated. As was the case with large (a)-rating, this rule substitutes (a)-rating where manual rating would otherwise apply. As was also the case with large (a)-rating, there is no guide (a)-rate to substitute in lieu of the manual rate; thus, this rule also permits ISO insurer-subscribers to charge whatever rate they deem appropriate.

Observe that unlike the large (a)-rating, which requires a basic limits premium of \$100,000, Rule 24H requires merely a basic limits premium of \$1,000. Thus, as a practical matter, in the rating of a particular risk, large (a)-rating would potentially affect merely the first \$1,000 of premium: By definition, Rule 24H would most likely otherwise be available for every risk eligible for large (a)-rating.

However, unlike the case of large (a)-rating, risks that are rated pursuant to Rule 24H are reported in the same fashion as are risks that are manually rated; they are not reported as a separate subline.

Presumably, the purpose of the rule is to enable insurers to take into account risk size.

It should also be observed that large (a)-rating is discretionary--the "insured may be (a)-rated."²¹ However, Rule 24H is mandatory: "Risks producing an annual premium of more than \$1,000 ... shall be (a)-rated."²² There is no ready explanation as to why ISO has made this distinction: Since the (a)-rate under Rule 24H is determined at the insurer's discretion, it can be set at a level equal to the manual rate. Thus, the use of mandatory language apparently serves no purpose. However, it does tend to emphasize to the underwriter that the rate can be established at his discretion, to the extent basic limits premium exceeds \$1,000.

5. Analysis of Alternative Rating Procedures.--We believe loss rating and large (a)-rating to be an appropriate distinction which should be continued. However, as our recommendations with respect to manual rates indicate, we believe that the product liability experience from these rating classifications should be collected on an experimental basis. This will enable ISO (1) to ascertain whether it is useful in making classifications manually rated which would otherwise be (a)-rated; and (2) to enhance credibility.

As we indicate in Chapter VI, supra, the loss rated experience should not be included in the experience evaluated for establishing rate levels since loss rated risks by definition reflect only their experience. However, such experience may be useful with respect to setting judgment rates if it is sufficiently similar to other data. For example, the loss rated experience could enhance the utility of other data collected for a classification and indicate that such data is in fact homogeneous thus warranting a manual rate rather than an (a)-rate; similarly, it might enhance the credibility of a classification. As large (a)-rated experience is, by definition, experience that would otherwise be manually rated, it too has the potential for increasing the credibility of the manual experience otherwise collected. Thus, while we believe that such ratings are appropriate, we recommend that product liability experience be separately reported on an experimental basis.

On the other hand, Rule 24H rating appears to be inconsistent with the actuarial analysis that ISO undertakes in connection with manual rates. Rule 24H permits the application of judgment rates--with respect to classifications that ISO has determined are homogenous (i.e., manually rated classifications)--often without regard to risk size (which is its ostensible justification). For example, a manually rated classification with a combined BI and PD rate of merely \$2.00 per thousand, with sales in excess of \$500,000 will be subject to (a)-rating. Nevertheless, it is difficult to conceive of a manufacturer of such items as bicycles, cosmetics, elevators, escalators, and pressurized cans--all manually rated classifications--with sales of less than \$500,000. In other words, virtually all reported experience with respect to such manufacturers presumably comes from manufacturers with sales in excess of \$500,000. Thus, risk size is already taken into account via the setting of the manual rate. Yet, for each of such manufacturers, because the combined BI and PD rate exceeds \$2.00 per thousand, Rule 24H requires (a)-rating to the extent the premium exceeds \$1,000.

Further, Rule 24H operates with respect to classifications which are both homogenous and which enjoy a high credibility. Totally unfettered discretion should not be part of an otherwise actuarially proper rating scheme.

As will be discussed in greater detail, at section E, infra, we believe that modifications to manual rates might best be taken into account via schedule and experience rating factors.

Note that in those instances where Rule 24H rating is employed, the rates actually charged under the rule are not generally subject to scrutiny by state regulators, as are manual rates.

Moreover, even were state regulators to be routinely advised of the use of Rule 24H rates when they deviate from the manual rates, there is no standard for gauging the validity of such rates. Finally, inequities resulting from the use of Rule 24H rates are compounded in those instances where insurance in excess of basic limits is purchased, since the excess limits factors are multiplied by the basic limits premiums.

As a result of the foregoing, we recommend that Rule 24H rating be discontinued.

E. Adjustments to Manual Rates.

1. Experience Rating.

a. Generally.--Our contractor has described an experience rating as follows:

"In theory, experience rating represents no more than an extension, to the individual risk level, of the actuarial principles underlying general ratemaking procedures. Simply stated, the formula for experience rating determinations should involve the comparison of actual losses during a selected experience period to the expected losses during that same period.... The differences between such actual and expected losses indicates the degree to which the otherwise collectible rate level should be modified.... (T)he indicated modification is moderated by a factor which reflects the actuarial credibility of the individual risk experience."²³

In other words, experience rating provides a method for taking into account a particular risk's previous experience, to the extent credible, in determining the rate that the risk will be charged.

b. Eligibility.--Presently, any risk developing at least \$2500 of annual basic limits manual premium may, at the discretion of the insurer, be experience rated.

Our contractor believes that this \$2500 threshold for eligibility is too low:

"...(C)onsider a hypothetical \$2500 premium risk, which in a three year period generates premium of \$7500. Of this \$7500, 57% ... or \$4,275 is available for losses. Based on the 1979 ISO rate filing, a 1980 average basic limit claim value of approximately \$3600 ... implies the risk would expect just slightly over one claim ($\$4,275/\$3,600 = 1.19$)

in the three year period. Using a Poisson statistical distribution ... (indicates that) ... the current minimum eligibility can result in the calculation of premium modifications which are, ... (for the most part) purely random short-term departures from the expected or class average experience values."²⁴

The contractor recommends that the insurance industry should "immediately" increase the minimum premium size required for experience rating which "more probably represents true or inherent (rather than random) experience differences."²⁵ We disagree with both the contractor's analysis and his recommendations.

Since the experience modification will be made only to the extent that it is credible, our contractor's concern that random fluctuations will be taken into account is minimized. Generally, those risks with a relatively small number of exposures and scant loss frequency will have a low credibility; this will result in a correspondingly diminished experience modification.

It should also be noted that the contractor undertook his analysis on the basis of average losses for all classifications; there are many industrial classification codes for which this average loss is atypical, with their actual average losses being considerably smaller: This would necessarily reduce the potential random fluctuations indicated by the Poisson distribution.

We also note that the raising of the \$2500 threshold would curtail the availability of experience rating for many small firms that are presently eligible for it. Thus, at present, a firm with a combined BI and PD rate of \$1.00 per thousand (which is greater than the median rate) would require sales of \$2.5 million to be eligible for experience rating. Increases in the eligibility threshold would further restrict the use of this rating technique.

In sum, we believe that the credibility methodology presently being used by ISO minimizes the potential for taking into account purely random variations in experience. However, we would recommend that ISO study the contractor's suggestions in this regard to determine whether any improvements in the former's methodology are warranted.

c. Experience Rating Plan Formulae.--Our contractor notes that the current experience rating plan used by ISO considers merely the experience from the latest three available years in considering a firm's experience modification. Our contractor

recommends that this measuring period be changed to use a five or seven year period. Our contractor notes:

"(T)he use of additional experience will increase the credibility assigned to the individual risk, and thus will render the experience modification more reflective of inherent risk experience..."²⁶

In general, we concur in this recommendation.

Our contractor also recommends that actual and persistent risk experience be taken into account.²⁷ He illustrates:

"...(C)onsider a risk whose hazard potential is inherently 50% better than the class average, and who is assigned a credibility of 20%. If experience is incurred in accordance with the risk's hazard potential, it will continually show (before credibility adjustment) an indicated loss ratio of one-half the expected.... After adjustment for credibility however, the premium credit will only be 10%. Even if this experience level persists indefinitely, the risk premium modification will never be more than the product of .5 and the credibility factor, or 10% if the credibility remains at 20%."²⁸ (emphasis added)

To compensate for this perceived inequity, our contractor recommends "weighting each year's modification with the previous year's modification."²⁹ However, we are unable to concur in this part of the recommendation.

Note at the outset that the adoption of the contractor's recommendation to expand the experience taken into account would mitigate the perceived inequity: As a result of expanding the experience period included, presumably the credibility of the hypothetical risk will also increase. Even more to the point, the contractor's comments go to the essence of the credibility analysis: Implicitly, his criticism can be expanded to the credibility analysis undertaken at the classification level, or the subgroup level, since his hypothetical could be posited at these levels as well. However, in his general comments on credibility, our contractor approves of the credibility analysis undertaken by ISO at the classification level. In fact, he recommends that a similar analysis--which considers severity--be introduced at the subgroup level.

In sum, we find our contractor's recommendation in this regard inconsistent with his endorsement of the credibility analysis. We believe that the credibility analysis undertaken by ISO, to the extent that it takes into account severity, meets the contractor's concerns.

d. Loss Experience: Paid and Reserved Claims.--Our contractor noted that "(T)he loss experience used in the experience rating formula consists of paid claims as well as reserved claims."³⁰ He concurs, as do we, in the continued use of reserved claims in making this computation.

e. Data Collection.--Our contractor observes that ISO collects individual risk modifications only in total with no distinction being made for modifications due to experience and/or schedule rating. He believes that this "leaves a very serious gap" in the insurers' ability to distinguish between the effects of actuarial and non-actuarial pricing considerations.³¹ To rectify this omission, he recommends that "separate modification statistics be routinely recorded, reported by the insurance companies and statistically analyzed."³²

We disagree with our contractor's recommendation in this regard. It should first be noted that ISO collects the overall modification not for purposes of analysis, but merely for purposes of auditing: By collecting the modification, ISO is able to verify that the collected premium (which is reported pursuant to the CSP) will be different from that indicated by the manual rate and, that a reporting error is not present. It has advised us that it does not engage in any analysis of the modification factors.

f. Other Considerations.--Our contractor makes two other recommendations in this area. First, he suggests that experience rating be made mandatory, and second, that the credibility formula be made part of the experience rating plan. We concur.

We are unable to ascertain any justification for not using an experience modification--to the extent that it is credible--in the rating of an individual risk. By requiring the use of experience modifications, this will tend to promote greater equity than is presently the case in the assignment of rates.

Similarly, since credibility plays such an important part in the determination of the experience modification, the credibility formula should be standardized and made part of the plan. In this connection, we are referring to the credibility formula used in the case of individual classification codes--which takes into account severity considerations. The credibility formula presently in use for subgroups--which is merely the square root of the quotient of number of losses divided by 683--is not acceptable in this regard.

2. Schedule Rating.--Our contractor indicates that "current ISO schedule rating ... allows for modifications to the published rates, subject to a maximum modification of 25 percent..."³³ The schedule permits modifications based on eight characteristics as follows:

Chart 3

SCHEDULE MODIFICATIONS

<u>Criteria</u>	<u>Range of Modifications</u>		
	<u>Credit</u>		<u>Debit</u>
A. Location:			
1. Exposure inside premises	5%	to	5%
2. Exposure outside premises	5%	to	5%
B. Premises - condition, care	10%	to	10%
C. Equipment - type, condition, care	10%	to	10%
D. Classification peculiarities	10%	to	10%
E. Employees -selection, training supervision, experience	6%	to	6%
F. Cooperation:			
1. Medical facilities	2%	to	2%
2. Safety program	2%	to	2%

While our contractor observes that several of these criteria would not routinely apply with respect to product liability (since this rating plan applies to all general liability), we believe that these criteria, considered in their entirety, are generally inappropriate for product liability. Our contractor implicitly concurs when he states:

"Underwriting considerations relating to product liability that can require the use of schedule rating include, to the extent not measured by experience, such things as above or below average product safety design or quality control, the extent to which an individual insured's products 'on the street' (manufactured and sold in previous years) represent an exposure greater or less than the average risk in the class, and the nature of product usage (e.g., commercial versus residential)."34

However, it is unclear that any of the present schedule criteria would appertain to the contractor's stated illustrations. Thus, we would recommend that ISO devise schedule criteria which take into account product liability considerations specifically--including those considerations mentioned by the contractor.

Our contractor recommends that schedule modifications "be limited to those which can be objectively determined based on engineering or physical risk factors."35 He continues by noting that "(I)f subjective modifications to risk premiums are necessary, (e.g., classification peculiarities) these should be recorded distinct from objective schedule rating... adjustments...."36

While as a theoretical matter, we are inclined to agree with this recommendation, as a practical matter, we believe that the distinction the contractor is seeking to make is elusive. For example, if a schedule modification as a result of an engineering consideration is believed warranted, it is impossible to objectively quantify that modification (e.g., should it be one percent, two percent, five percent, etc.). We believe that so long as the reason for a schedule modification can be articulated and made part of the underwriting file, then the distinction between "objective" and "subjective" is of lesser import.

However, we do believe that the range of schedule modifications should be actuarially analyzed: Unlike experience modifications, the permitted range of schedule modifications as well as the 25 percent overall limitation are purely arbitrary. Thus, ISO should analyze the experience underlying the risks for which modifications have been made to ascertain whether, at least in the aggregate, the permissible ranges and overall limitation on modifications are appropriate.

Finally, our contractor recommends that the present eligibility criteria for schedule rating--\$1,000 of basic limits premium--be continued.³⁷ We disagree with this finding and believe that there should be no dollar threshold for schedule modifications.

Our contractor does not indicate the ostensible justification for a dollar threshold. As our discussion in the context of underwriting indicates,³⁸ we believe that there are certain inevitable inequities built into the manual rate structure. In an effort to minimize these, we believe that underwriters should have flexibility: When they can articulate specific concerns warranting schedule modifications, we believe that they should be able to adjust rates accordingly, regardless of the size of the basic limits premium. Thus, we recommend that the \$1,000 threshold be removed in its entirety.

Implicit in this recommendation is the belief that all modifications to be made to a manual rate as a result of the underwriting process (other than experience modifications) should be reflected as a schedule modification, with such modifications to be memorialized and quantified in the underwriting file (as well as reported to ISO). This information should be made available to the prospective insured prior to the time of the issuance of any contract. This will provide an insured with an opportunity to correct any misinterpretation or misinformation as to the nature of the risk and/or in the event that a prospective risk believes that the underwriter has erred in making such modifications, to seek insurance elsewhere.

FOOTNOTES FOR CHAPTER IV

1. Insurance Services Office, Commercial Lines Manual, at GL-11 to GL-R-16 (Rev. Mar. 1980) (hereinafter cited as ISO manual).
2. See ch. V infra.
3. Compare Insurance Services Office, Numerical List of Codes With Words (1974) with Executive Office of the President, Office of Management and Budget, Standard Industrial Classification Manual (1972).
4. E.H. Friend & Co., Product Liability Insurance 61 (1980) (hereinafter cited as Contractor Report).
5. Id. at 62.
6. Id.
7. Problems, supra ch. II note 1, at 165-66.
8. See Insurance Services Office, Chief Executive Circular -- Product Liability -- (A)-Rates Revised (Nov. 30, 1979) (hereinafter cited as ISO Circular).
9. Problems, supra ch. II note 1, at 166.
10. Id. at 166-67.
11. The LaFalce Subcommittee queried the 15 largest writers of product liability insurance (based on line 17 premiums) as to their use of ISO's rates. With the exception of Aetna Life and Casualty Insurance Company which indicated that it uses (a)-rates published by its Home Office, those commenting on the use of ISO's (a)-rates indicated that they are used as advisory rates, and modified appropriately by underwriting judgment. See LaFalce Hearings (Part 5), supra ch. II note 1 at 1737-38.

12. ISO Circular, supra note 8, at 2.
13. Contractor Report, supra note 4, at 70-71.
14. See ISO Circular, supra note 8, at 2.
15. See ch. VI, sec. 4, para. a infra.
16. Problems, supra ch. II note 1, at 167.
17. Id. at 168.
18. American Insurance Association, Product Liability Insurance: Underwriting, Rates, Reserves, Business Cycles 25-26 (1979) (hereinafter cited as AIA Underwriting Paper).
19. Insurance Services Office, Rules for (A)-Rating Sizeable Risks (1979).
20. ISO Manual, supra note 1, at GL-13 to GL-15.
21. Insurance Services Office, Rules for (A)-Rating Sizeable Risks (1979).
22. ISO Manual, supra note 1, at GL-13 to GL-15.
23. Contractor Report, supra note 4, at 88.
24. Id. at 89-90.
25. Id. at 90.
26. Id. at 91.

27. Id. at 93.

28. Id.

29. Id.

30. Id. at 94.

31. Id. at 95.

32. Id. at 96.

33. Id. at 97.

34. Id. at 97-98.

35. Id. at 98.

36. Id.

37. Id. at 99.

38. See ch. VII, sec. H, infra.

V. ISO RATEMAKING METHODOLOGY AND TECHNIQUES

A. Generally.

1. Introduction.--Ratemaking data is derived not from the annual reports furnished to the individual state insurance departments, but rather from information furnished by commercial insurers to a ratemaking organization pursuant to the latter's statistical plan. Since the Insurance Services Office ("ISO") is the principal ratemaking organization that determines product liability rates, its methodology and procedures will be set forth herein.

2. Source of Data.--ISO requires its reporting insurers to provide information with respect to all premiums and losses (including loss adjustment expenses) in the form required by its Commercial Statistical Plan (discussed at Chapter II, section B, supra).

The experience of the reporting insurers is provided to ISO on the basis of both "basic coverage" (which for bodily injury is \$25,000 for each occurrence and \$50,000 in the aggregate, and for property damage is \$5,000 for each occurrence and \$25,000 in the aggregate), and "total coverage" (which, as the term suggests, is the total premium and total covered losses including loss adjustment expenses).

Experience is reported and reviewed on a "policy year" basis which includes all policies written in a calendar year. A policy year is a misnomer in that it represents a period ending 2 years subsequent to its commencement. For example, policy year 1980 includes policies written on January 1, 1980 (expiring January 1, 1981) through December 31, 1980 (expiring December 31, 1981).

The experience collected includes "exposures units" and "losses incurred." The first report, pursuant to the statistical plan, is made 3 months after the close of the policy year (which is 27 months after its commencement). Thus, initial reporting for policy year 1980 will occur on March 31, 1982.

"Exposure units" are the measures which are multiplied by product liability rates to produce the product liability premium. Generally, they are based upon sales dollars, although for some classifications they may be measured in receipts, units, gallons, tons, etc.

"Losses incurred" are the amounts paid or payable to claimants. It includes reserves ("case reserves") that have been set aside to cover payments for claims which have been reported but not paid. It does not include reserves for claims that may have occurred but are not yet reported ("incurred but not reported" or "IBNR").* Losses incurred may also include allocated loss adjustment expenses ("ALAE")**--the direct expenses involved in handling claims.

3. Rates.--Product liability rates are determined separately for bodily injury ("BI") and property damage ("PD"). Further they are determined separately for basic coverage (see paragraph B, supra) and for "excess coverage" (coverage in addition to basic coverage). The rates for excess coverage are expressed as a multiple ("excess limits factors") of the rates for basic limits coverage. The methodology used by ISO for determining rates for basic limits coverage is similar for both BI and PD. This methodology is different from that used to determine the multiple for excess limits coverage, which is again similar for both BI and PD.

The discussion below will first consider how basic limits rates are determined and will conclude with a discussion of how excess limits factors are determined.

B. Basic Limits Rates¹

1. Loss Development.--After filing its first report with ISO for a particular policy year (3 months after the policy year's close) each insurer will annually update its report to take into account additional losses reported and/or paid on account of policies in effect during the initial policy year. Presently, ISO requires ten reports.*** Thus policy year 1980

* "Incurred losses," for purposes other than ratemaking often include IBNR.

** For basic limits rates computations "losses incurred" include ALAE; however, for excess limits factors computations, ALAE is taken into account separately.

*** ISO formerly required only 5 reports; thus, the ten year reporting is presently being phased in. For rate filings made by ISO in 1978 (ISO's most recent rate filing), 7 reports were available.

will initially be reported by March 31, 1982, and by the same day in each of the subsequent 9 years. Because the first report is "immature" (i.e., many losses have not been reported, and the value of many losses has been estimated but not actually paid), they are "developed" to an amount representing an estimate of what will be paid after all claims are finally settled and adjudicated.

From these reports, ISO is able to compile tables for BI and PD in the form of Exhibit A-1, which show the maturing of the basic limits losses with respect to each policy year. From these tables, ISO is able to compute the proportionate change from one reporting period to the next for each policy year. This proportionate change is reflected in tabular form in Exhibit A-2. Finally, ISO takes an arithmetic average of the proportionate change for a reporting period for the three most recent years to arrive at a development factor to reflect the anticipated maturing from one reporting interval to the next. As these development factors may be successively applied they are multiplicative; ISO uses them to produce an overall development factor for a given policy year as shown in Exhibit A-3.

Note that ISO is presently using a factor of 1.023 for BI and a factor of 1.008 for PD to reflect the experience at the end of 7 reports to the ultimate projected loss ("ultimate").

2. Unallocated Loss Adjustment Expenses.--As aforesaid, losses incurred include allocated loss adjustment expenses. However, the ISO ratemaking methodology also takes into account unallocated loss adjustment expenses (which are expenses not attributable to any single claim). To reflect these unallocated loss adjustment expenses in its trend and rate exhibits, ISO multiplies losses incurred for each policy year by a factor of 1.085. Thus, the ISO ratemaking methodology includes both allocated loss adjustment expenses as well as unallocated loss adjustment expenses.

3. Claim Development Factors.--Each year the insurer updates its filing with ISO to take into account additional losses reported and/or paid with respect to policies in effect during the initial policy year. Thus, as the insurer learns about new potential losses, these are reflected in each of the subsequent nine reports after the initial filing. Similarly, due to the definition of the term "claim"--which requires that when finally closed, an amount other than loss adjustment expenses be actually paid out--the number of claims is subject to diminishment since it may develop that case reserves were established for a claim which was ultimately settled without

EXHIBIT A-1

Policy year ending	27 months	39 months	51 months	63 months	75 months	87 months	99 months
BI Basic Limits Incurred Losses as of							
12/31/70			6,903,732	7,690,245	7,700,524	7,657,574	7,831,258
12/31/71		6,427,036	7,689,926	8,175,438	8,314,923	8,603,526	
12/31/72	6,842,915	9,121,620	10,101,996	10,889,611	10,882,073		
12/31/73	8,381,035	10,509,259	11,830,127	12,085,214			
12/31/74	8,316,115	12,347,288	14,308,419				
12/31/75	12,258,707	17,860,215					
12/31/76	15,871,303						
PD Basic Limits Incurred Losses as of							
12/31/70			3,576,650	3,722,486	3,807,358	3,874,867	3,907,089
12/31/71		3,313,885	3,589,441	3,949,060	4,257,801	4,386,124	
12/31/72	3,997,447	4,350,456	4,803,259	5,011,439	5,116,783		
12/31/73	4,538,819	5,185,956	5,584,314	5,836,111			
12/31/74	4,859,019	5,836,191	6,528,432				
12/31/75	8,340,051	9,398,452					
12/31/76	9,569,994						

EXHIBIT A-2

Policy year ending	39:27	51:39	63:51	75:63	87:75	99:87
BI Ratios						
12/31/70			1.114	1.001	.994	1.023
12/31/71		1.196	1.063	1.017	1.035	
12/31/72	1.353	1.107	1.078	.999		
12/31/73	1.254	1.126	1.022			
12/31/74	1.485	1.159				
12/31/75	1.457					
3 Year Mean	1.399	1.131	1.054	1.006	1.015	1.023
PD Ratios						
12/31/70			1.041	1.023	1.018	1.008
12/31/71		1.083	1.100	1.078	1.030	
12/31/72	1.088	1.104	1.043	1.021		
12/31/73	1.143	1.077	1.045			
12/31/74	1.199	1.121				
12/31/75	1.127					
3 Year Mean	1.156	1.101	1.063	1.041	1.024	1.008

EXHIBIT A-3

Policy year ending	27 to 39	39 to 51	51 to 63	63 to 75	75 to 87	87 to 99	99 to Ultimate	Factor
BI Loss Development From:								
12/31/70							1.023	1.023
12/31/71						1.023	1.023	1.047
12/31/72					1.015	1.023	1.023	1.062
12/31/73				1.006	1.015	1.023	1.023	1.068
12/31/74			1.054	1.006	1.015	1.023	1.023	1.126
12/31/75		1.131	1.054	1.006	1.015	1.023	1.023	1.274
12/31/76	1.399	1.131	1.054	1.006	1.015	1.023	1.023	1.781
PD Loss Development From:								
12/31/70							1.008	1.008
12/31/71						1.008	1.008	1.016
12/31/72					1.024	1.008	1.008	1.040
12/31/73				1.041	1.024	1.008	1.008	1.084
12/31/74			1.063	1.041	1.024	1.008	1.008	1.152
12/31/75		1.101	1.063	1.041	1.024	1.008	1.008	1.267
12/31/76	1.156	1.101	1.063	1.041	1.024	1.008	1.008	1.466

payment. As these additions and subtractions have, historically, not canceled each other over time, ISO develops the number of claims to estimate the actual number of claims for BI and PD that will occur with respect to a policy year.

These claims are developed in a manner similar to the loss development as shown in Exhibit B-1 and B-2.

As will be discussed in connection with trend factors, the number of claims occurring with respect to a policy year (as developed) is used in determining the average loss for a policy year.

4. Trend Factors.--While a loss development factor is used to estimate the ultimate anticipated losses with respect to any policy year, the ratemaking methodology used by ISO requires an estimate of anticipated losses with respect to policy years in the future. Thus, ISO derives trend factors for both BI and PD which are applied to incurred losses in past policy years so that losses with respect to future policy years may be estimated.

Similarly, ISO, to take into account inflation, recognizes that premiums--which are in large part based upon dollars of sales--will increase over time. ISO computes an "exposure trend factor" to take into account the anticipated rise in premiums. (This will be the same for both BI and PD).

While the manner in which these trend factors are used will be discussed in connection with projected loss ratio, it would be useful at this point to examine how the trend factor and the exposure trend factor are derived.

The trend factor is derived by first computing the average incurred claim cost for each policy year under consideration. The average incurred claim cost is computed by taking the basic limits incurred loss for each year (which represents the actual basic limits loss reported, to which the development factor as well as the unallocated loss adjustment factor has been applied), and dividing it by the number of incurred claims (which represents the actual number of claims reported to which the claim development factor has been applied). After ISO has determined the average incurred claim cost for each of the six most recent policy years for which data is available, it next mathematically determines the exponential curve* which best

* One of the properties of this curve ($\ln y = m \cdot \ln x + \ln b$) is that the rate of change (y_{n+1} / y_n) is constant over the curve.

EXHIBIT B-1
Bodily Injury Claims Development

Policy year ending	Number of Incurred Claims as of						
	27 months	39 months	51 months	63 months	75 months	87 months	99 months
12/31/70			7,024	7,021	6,935	6,930	6,917
12/31/71		7,288	7,252	7,215	7,200	7,174	
12/31/72	9,173	9,028	8,866	8,892	8,872		
12/31/73	8,706	8,614	8,668	8,705			
12/31/74	7,275	7,520	7,546				
12/31/75	8,156	8,520					
12/31/76	9,172						
Ratios							
	39:27	51:39	63:51	75:63	87:75	99:87	
12/31/70			1.000	.988	.999	.998	
12/31/71 .....		.995	.995	.998	.996		
12/31/72 .....	.984	.982	1.003	.998			
12/31/73 .....	.989	1.006	1.004				
12/31/74	1.034	1.003					
12/31/75	1.045						
3 Year Mean	1.023	.997	1.001	.995	.998	.998	
Claim Development From:							
	27 to 39	39 to 51	51 to 63	63 to 75	75 to 87	87 to 99	99 to Ultimate Factor
12/31/70						1.000	1.000
12/31/71 .....					.998	1.000	.998
12/31/72 .....				.995	.998	1.000	.996
12/31/73			1.001	.995	.998	1.000	.991
12/31/74 .....		.997	1.001	.995	.998	1.000	.992
12/31/75 .....		.997	1.001	.995	.998	1.000	.989
12/31/76	1.023	.997	1.001	.995	.998	1.000	1.012

EXHIBIT B-2
Property Damage Claims Development

Policy year ending	Number of Incurred Claims as of						
	27 months	39 months	51 months	63 months	75 months	87 months	99 months
12/31/70			5,591	5,591	5,566	5,581	5,553
12/31/71		5,568	5,600	5,573	5,587	5,587	
12/31/72	6,196	6,330	6,317	6,354	6,331		
12/31/73	6,659	6,657	6,711	6,742			
12/31/74	6,256	6,483	6,598				
12/31/75	10,212	10,483					
12/31/76	11,324						
Ratios							
	39:27	51:39	63:51	75:63	87:75	99:87	
12/31/70			1.000	.996	1.003	.995	
12/31/71		1.006	.995	1.003	1.000		
12/31/72	1.022	.998	1.006	.996			
12/31/73	1.000	1.008	1.005				
12/31/74	1.036	1.018					
12/31/75	1.027						
3 Year Mean	1.021	1.008	1.002	.998	1.002	.995	
Claim Development From:							
	27 to 39	39 to 51	51 to 63	63 to 75	75 to 87	87 to 99	99 to Ultimate Factor
12/31/70						1.000	1.000
12/31/71 .....					.995	1.000	.995
12/31/72				1.002	.995	1.000	.997
12/31/73 .....			.998	1.002	.995	1.000	.995
12/31/74		1.002	.998	1.002	.995	1.000	.997
12/31/75		1.008	1.002	.998	1.002	.995	1.005
12/31/76	1.021	1.008	1.002	.998	1.002	.995	1.026

fits the six average incurred claim costs plotted against successive policy years (an exponential regression analysis). The trend factor is found by dividing the estimated average incurred claim cost for the most recent policy year (taken from the exponential curve), by the estimated average incurred claim cost for the next most recent year (also taken from the curve). This factor represents an estimate of the future rate of increases for losses (based on past data). Presently, the methodology used by ISO indicates an annual trend factor of 14.5 percent for BI and 9.0 percent for PD. However, the respective factors have been reduced to 14.0 percent and 8.5 percent, "to reflect the anticipated positive effect of the President's Anti-Inflation Program" for accidents whose average date is after October 1, 1978. See Exhibits C-1 and C-2.

The exposure trend factor is determined in a similar manner, however, using data from the Consumer Price Index for Commodities ("CPIC"). While this data is published monthly, ISO determines quarterly averages for the CPIC for a three year period. As with the trend factor, a exponential curve is then fitted to the quarterly CPIC data, and an annual sales exposure offset factor derived by dividing the estimated CPIC for the final quarter (as determined from the curve) by the estimated CPIC one year prior to the final quarter (also taken from the curve). Next, the annual average CPIC for each of the past six policy years is found,* with an adjustment factor computed by dividing the most recent CPIC figure by each annual average CPIC; this factor, when multiplied by each annual average CPIC will thus adjust it to the present.

Finally, the adjustment factor for each policy year is multiplied by the offset factor raised to a power equal to the difference (expressed in years) between the data of the midpoint of the effective period for which rates are being promulgated and the mid-point of the last quarter's CPIC. This result is referred to as the "exposure trend factor." See Exhibit D.

5. Projected Loss Ratio.--Ratemaking involves determining a tentative projected loss ratio at present rate levels and comparing it to a permitted standard. A deviation between the projection and the standard would indicate that an adjustment is appropriate. Essentially, the tentative projected loss ratio may be defined to be projected losses divided by projected premiums at present rate levels. To make these computations, certain further adjustments are necessary.

* Since the policy year embraces a two year interval, the average CPIC will be computed over two years.

EXHIBIT C-1

BODILY INJURY

CALCULATION OF TREND FACTOR

(1) Policy Year Ending	(2) Basic Limits Incurred Losses	(3) Number of Incurred Claims	(4) Avg. Incurred Actual (2)/(3)	(5) Claim Cost Exp. Curve of Best Fit
12/31/71	12,534,316	7,424	1,688	1,646
12/31/72	16,395,397	9,119	1,798	1,885
12/31/73	18,515,532	9,048	2,046	2,160
12/31/74	22,100,604	7,932	2,786	2,474
12/31/75	22,606,515	8,083	2,797	2,335
12/31/76	26,577,259	8,435	3,151	3,246

- (6) Average Annual Incurred Claim Cost
Based Upon Policy Year Ending 12/31/71-76
(3,246 divided by 2,835 = 1.145).....14.5%
- (7a) Selected Annual Claim Cost Factor
From Average Date of Accident to 10/1/78.....14.5%
- (7b) Selected Annual Claim Cost Trend Factor
From 10/1/78 to One Year Beyond 9/1/79.....14.0%

EXHIBIT C-2

PROPERTY DAMAGE

CALCULATION OF TREND FACTOR

(1)	(2)	(3)	(4)	(5)
Policy Year Ending	Basic Limits Incurred Losses	Number of Incurred Claims	Avg. Incurred Claim Cost Actual <u>(2)/(3)</u>	Exp. Curve of Best Fit
12/31/71	715,868,719	6,623	886	902
12/31/72	7,355,124	7,721	953	983
12/31/73	8,982,008	8,341	1,077	1,070
12/31/74	10,802,176	8,330	1,297	1,166
12/31/75	10,753,984	8,621	1,247	1,270
12/31/76	12,149,302	9,189	1,322	1,384

- (6) Average Annual Incurred Claim Cost
Based Upon Policy Year Ending 12/31/71-76
(1,384 divided by 1,270 = 1.090).....+9.0%
- (7a) Selected Annual Claim Cost Factor
From Average Date of Accident to 10/1/78.....+9.0%
- (7b) Selected Annual Claim Cost Trend Factor
From 10/1/78 to one year beyond 9/1/79.....+8.5%

EXHIBIT D

CALCULATION OF SALES EXPOSURE OFFSET

(1)	(2)	(3)
<u>Quarter Ending</u>	<u>Consumer Price Index for Commodities</u>	<u>Exponential Curve of Best Fit</u>
12/31/75	162.2	159.9
3/31/76	162.3	162.2
6/30/76	164.2	164.5
9/30/76	166.5	166.8
12/31/76	167.7	169.2
3/31/77	170.5	171.6
9/30/77	176.2	176.6
6/30/77	174.3	174.1
12/31/77	177.7	179.1
3/31/78	180.3	181.7
6/30/78	185.5	184.3
9/30/78	189.5	189.9

(4) Average annual sales exposure offset factor:
(186.9) divided by (176.6) = 1.058

(5) Factor to project sales exposures from 8/15/78 to 9/1/80:
(1.058)^{2.042} = 1.122

(6)	(7)	(8)	(9)
<u>Policy Year Ending</u>	<u>Average Consumer Price Index for Commodities</u>	<u>Factor to Adjust from Each Policy Year to 8/15/78*</u>	<u>Exposure Trend Factor**</u>
12/31/72	119.2	1.590	1.784
12/31/73	125.4	1.511	1.695
12/31/74	137.7	1.376	1.544
12/31/75	152.0	1.247	1.399
12/31/76	161.8	1.171	1.314

* (8) = 189.5 divided by (7)

** (9) = (5) x (8)

For example, in using policy year 1975 losses to assist in determining BI rates effective January 1, 1982, these losses must first be developed to ultimate. This is accomplished by multiplying the 1975 losses by the corresponding development factor, 1.781, as shown in Exhibit A-3. Also, the unallocated loss adjustment factor--1.085--must be applied. The result represents the losses that will ultimately be paid for policy year 1975.

Next, the fully developed 1975 losses must be projected into the future to determine what their magnitude would be if they occurred in policy year 1982. In making this determination, it is assumed that policies are written and losses occur evenly throughout each policy year. Thus, for policy year 1975 the average date of occurrence (i.e., loss) is midway between January 1, 1975 and December 31, 1976, or January 1, 1976. Similarly, for policy year 1982, the average date of occurrence (i.e., loss) will be January 1, 1983. Thus, the developed policy year 1975 losses must be projected from the average date of their occurrence--January 1, 1976--to the average date of occurrence for policy year 1982--January 1, 1983. The projection is made by exponentially raising the trend factor (e.g., 1.140) by an amount equal to the number of years into the future for which a projection is to be made. This result is multiplied by the 1975 incurred losses (determined with loss development and unallocated loss development factors), to yield projected losses (based on policy year 1975 data) for policy year 1982.

Thus, in our illustration, the projection of 1975 losses to 1982 losses will be made as follows:

$$\begin{aligned} \text{1982 losses} = & \\ & (\text{1975 losses}) * (\text{loss development factor}) * (\text{unallocated loss adjustment expense factor}) * \\ & (\text{trend factor})^{(\text{number of years of projection})} \end{aligned}$$

$$\begin{aligned} \text{1982 losses} = & \\ & (\text{1975 losses}) * (1.781) * (1.085) * (1.140)^7 ** \end{aligned}$$

This methodology is repeated for each year that will be taken into account.

** For purposes of simplicity, a trend factor of 14 percent is assumed to be in effect throughout the 7-year period. If the actual factors on Exhibit C-1 are used--1.145 prior to October 1, 1978, and 1.140 subsequent thereto--the expression will not be $(1.140)^7$ but $(1.145)^{2.75} * (1.140)^{4.25}$.

Similarly, projected premiums are next computed. First, the exposure units for basic coverage for each policy year being used for the projection are applied to current rates to yield the premium that would be obtained at current rates, based upon the prior year's level of exposure. Thus, in the previous example, policy year 1975 exposures would be multiplied by current rates. The premium for the average policy is generally based on actual sales; thus, the average date of earned exposure for policy year 1975 is December 31, 1975, and for policy year 1982 is December 31, 1982. The use of 1975 data to make this computation requires that an adjustment be made for seven years. However, this projection will be made differently than was the projection for losses.

If it is assumed further that this computation is being made when the most recent quarter's average CPIC was 189.5 (September 30, 1978) and that the average CPIC for policy year 1975 was 161.8, dividing 189.5 by 161.8 will yield 1.171 (which, when multiplied by the 1975 CPIC, will bring it current). However, a projection must still be made from the midpoint of the last quarter's average CPIC (August 15, 1978) to the average date of earned exposure for policy year 1982--December 31, 1982, a period of four years, four and one-half months. Thus, the sales offset factor of 1.058 (see Exhibit D) must be raised to the 4-9/24 power (4-1/2 months = 9/24 of a year). The result--1.280--is then multiplied by 1.171 to produce the exposure trend factor of 1.499. This exposure trend factor when multiplied by 1975 exposures will yield projected exposures for policy year 1982. When this product is multiplied by current rates, it produces the anticipated 1982 premium that will be earned at current rates. As with the trend factor, this methodology is repeated for each prior policy year that will be taken into account.

The projected premium based on each prior policy year is then divided into the projected loss for the corresponding prior policy year to yield, as a resulting quotient, the projected loss ratio for the prior policy year under consideration, based upon present rate levels.

6. Determination of Aggregate Rate Adjustment.--ISO uses a loss ratio of .570 as the standard in ratemaking for product liability insurance. This is based upon the estimate that 25 percent of premium is required for total product cost allowance, 10 percent is required for general expenses, 3 percent is required for taxes, licenses, and fees, and 5 percent is allowed for underwriting profit and contingencies; thus, 100 percent - 43 percent = 57 percent.

ISO uses a weighted average of the two most recent policy years for which data is available in making its aggregate rate adjustment: It weights the most recent policy year by 70 percent and the next most recent policy year by 30 percent to yield the "tentative projected loss ratio."

If the tentative projected loss ratio is different from .570, a rate level adjustment is indicated as follows: If x is the tentative projected loss ratio, then $x/.570 = y$, where y multiplied by the aggregate present rates equals the aggregate new rate. See Exhibit E-1 and E-2.

Note that the above mentioned methodology does not take into account increases in claim frequency, since ISO has indicated that no such trend exists.

7. Determination of Specific Rate Adjustments.--Having determined the aggregate rate adjustment indicated for basic limits coverage, this rate adjustment must be applied to the individual rate classifications. ISO attempts to distribute the rate adjustment among the classifications in an equitable fashion, which reflects their experience. To do this, ISO first applies this adjustment to its class groupings, and then in turn to the individual rate classifications. This is effectuated in the following manner:

a. Class Groupings.--ISO has placed its various rate classifications into fifteen groupings for bodily injury ("BI") and thirteen groupings for property damage ("PD"). For each of these groupings, a five year loss and loss adjustment ratio is computed.* Similarly, for each of these groupings, a five year "credibility" statistic (which may range between 0 and 1.00) is also computed.** Finally, total five year loss and loss adjustment expense ratios are computed for all fifteen BI groupings and for all thirteen PD groupings.

* In computing this ratio, for each of the 5 policy years taken into account, losses are developed to ultimate and to reflect unallocated loss adjustment expenses. In addition, they have been trended from the average date of occurrence to the midpoint of the first policy year for which they will be effective; premiums have been increased by the exposure trend factor to reflect the average date of earned exposure for the first policy year the rates will be effective.

** See discussion at paragraph 8, infra.

EXHIBIT E-1

BODILY INJURY

RATE LEVEL CHANGE

(1)	(2)	(3)	(4)
Policy Year Ending	Basic Limits Premium at Present Rates	Basic Limits Incurred Losses	Basic Limits Loss & Loss Adjustment Ratio
12/31/72	\$88822608	\$46960864	0.529
12/31/73	84094832	46714448	0.555
12/31/74	77720608	50387344	0.648
12/31/75	71842992	47981760	0.668
12/31/76	<u>92070304</u>	<u>54182736</u>	<u>0.588</u>
TOTAL	\$414551040	\$246227152	0.594

- (5) Weighted loss and loss adjustment ratio
 (30% of policy year ending 12/31/75 and
 70% of policy year ending 12/31/76).....0.612
- (6) Expected loss and loss adjustment ratio.....0.570
- (7) Indicated rate level change (5) divided by (6).....+7.4%

EXHIBIT E-2
PROPERTY DAMAGE
RATE LEVEL CHANGE

(1)	(2)	(3)	(4)
Policy Year Ending	Basic Limits Premium at Present Rates	Basic Limits Incurred Losses	Basic Limits Loss & Loss Adjustment Ratio
12/31/72	\$26371136	\$14587861	0.553
12/31/73	26583568	16180423	0.609
12/31/74	26700496	17950608	0.672
12/31/75	26059936	19074608	0.732
12/31/76	<u>32737376</u>	<u>21095520</u>	<u>0.644</u>
TOTAL	\$138452512	\$88889008	0.642

- (5) Weighted loss and loss adjustment ratio
(30% of policy year ending 12/31/75 and
70% of policy year ending 12/31/76).....0.670
- (6) Expected loss and loss adjustment ratio.....0.570
- (7) Indicated rate level change (5) divided by (6)).....+17.5%

Next, a "formula loss and loss adjustment ratio" is computed for each grouping. This may be computed for each grouping from the following algebraic equation:

$$F_n = (C_n * R_n) + ((1-C_n) * R_T)$$

Where: F_n = Formula loss and loss adjustment ratio for class group n;

C_n = Credibility statistic for class group n;

R_n = 5 year loss and loss adjustment expense ratio for class group n;

R_T = 5 year loss and loss adjustment expense ratio for all class groups (determined separately for BI and PD);

n = For BI, 1 through 15; for PD, 1 through 13.

The total formula loss and loss adjustment ratio for all class groups is next computed by multiplying the formula loss and loss adjustment ratio for each class group by the amount of basic limit premiums at present rates* with respect to the most recently available policy year for the corresponding class group; these products are then totaled, and divided by the total basic limit premium for the most recently ended policy year, with the quotient equalling the total formula loss and loss adjustment ratio. This may be expressed algebraically as follows:

$$F_T = \frac{\sum (P_n * F_n)}{P_T}$$

Where: F_T = Total formula loss and loss adjustment expense ratio for all class groups;

P_n = Basic limit premiums based on current rates using exposures, after applying exposure trend factor for most recent available policy year for class group n;

P_T = Total basic limits premiums based on current rates using exposures, after applying exposure trend factor, for most recently available policy year.

* Taking into account the exposure trend factor.

Next, the formula loss and loss adjustment ratio for each class group is converted to an index for each class group which reflects its relationship with the total formula loss and loss adjustment ratio. This may be expressed algebraically as follows:

$$I_n = \frac{F_n}{F_t}$$

Where: I_n = Index for class group n.

Next, the "class group change factor" for each class group is determined by multiplying the index for each class group by a factor representing the "indicated aggregate rate adjustment." The class group change factor will be used to determine the individual rate classification adjustments. This entire methodology is illustrated in Exhibit F-1 and F-2.

For this purpose, "the indicated aggregate rate adjustment" is different from that determined under paragraph 6, supra. The aggregate rate adjustment previously determined is adjusted to take into account both ISO's "rounding policy"* and the fact that ISO limits rate increases to 100 percent, and rate decreases to 50 percent to produce the "indicated aggregate rate adjustment."**

* Where the indicated rate is less than \$1.00, ISO rounds to the nearest cent; where the indicated rate exceeds \$1.00, ISO rounds to the nearest ten cents.

** The effect of this adjustment was to cause the rate increase computed pursuant to paragraph F, supra to increase from 7.4% to 9.0% for BI and from 17.5% to 19.5% for PD.

The methodology involved in computing this is as follows: After ISO computes the rates for each classification, as will be more fully set forth in subparagraph b, infra, ISO takes those classifications which have been rounded and "capped" and computes the difference between the losses for each such class that would be anticipated were the classification not rounded or capped and subtracts from that the losses for which the adjusted rate increase (taking into account the "rounding" and "capping") is currently providing. These net incremental losses are then totaled, and added to the losses indicated for the most recently available policy year (fully developed and trended). ISO then uses the same methodology outlined in paragraph 6, supra, and recomputes the indicated rate adjustment, based upon the same weighting.

EXHIBIT F-1**Property Damage**

Class group	(2) Policy year ended 12/31/76 B/L premium at present rates	(3) 5 year loss & loss adjustment ratio	(4) 5 year credibility	(5) Formula loss & loss adjustment ratio	(6) Indices	(7) Class group change factor (6) x 1.090
1	4296483	0.418	1.00	0.418	0.705	0.768
2	6583109	0.561	1.00	0.561	0.946	1.031
3	16326401	0.617	1.00	0.617	1.040	1.134
4	8886339	0.680	1.00	0.680	1.147	1.250
5	3674979	0.539	0.92	0.543	0.916	0.998
6	7034223	0.602	1.00	0.602	1.015	1.106
7	9127343	0.530	1.00	0.530	0.894	0.974
8	7506106	0.595	1.00	0.595	1.003	1.093
9	320244	0.525	0.25	0.577	0.973	1.061
10	4175990	0.550	0.63	0.566	0.954	1.040
11	4838432	0.534	1.00	0.534	0.901	0.982
12	11466103	0.593	1.00	0.593	1.000	1.090
13	2624553	0.646	0.80	0.636	1.073	1.170
14	4310055	0.603	1.00	0.603	1.017	1.109
15	902279	1.771	0.66	1.371	2.312	2.520
Total ...	92072544	0.594	1.00	0.593		

EXHIBIT F-2**Bodily Injury**

Class group	(2) Policy year ended 12/31/76 B/L premium at present rates	(3) 5 year loss & loss adjustment ratio	(4) 5 year credibility	(5) Formula loss & loss adjustment ratio	(6) Indices	(7) Class group change factor (6) x 1.195
1	1546774	0.539	1.00	0.539	0.844	1.009
2	2254979	0.528	1.00	0.528	0.826	0.987
3	1083517	0.678	1.00	0.678	1.061	1.268
4	1879191	0.630	1.00	0.630	0.986	1.178
5	97399	1.266	0.91	1.210	1.894	2.263
6	423699	0.698	1.00	0.698	1.092	1.305
7	5343122	0.699	1.00	0.699	1.094	1.307
8	11609320	0.625	1.00	0.625	0.978	1.169
9	1433518	0.527	1.00	0.527	0.825	0.986
10	2835389	0.410	1.00	0.410	0.642	0.767
11	2438927	0.733	1.00	0.733	1.147	1.371
12	1560262	0.954	1.00	0.954	1.493	1.784
13	232397	1.908	0.81	1.667	2.609	3.118
Total ...	32738432	0.642	1.00	0.639		

b. Individual Rate Classification Adjustments.--After finding the class group change factor, the rate adjustment may be made to the individual rate classifications (which, as was mentioned earlier, are each assigned to a class group).

The methodology involved in promulgating a revised rate is similar to the machinations that were undertaken in determining the class group change factor. First, the basic limits premiums are determined for each rate classification ("ICC"-- industrial classification code) using exposures for the most recently available policy year (increased by the exposure trend factor) applied to current rates. Similarly, a five year loss and loss adjustment ratio for each individual classification is computed,* as is a five year credibility factor. Finally, the formula five year loss and loss adjustment ratio for the class group-- F_n (which was determined above)--is used in these computations.

The first computation determines the formula loss and loss adjustment ratio for each individual classification. This may be computed by the following algebraic equation (which is similar to the methodology used to find the formula loss and loss adjustment ratio for the class group):

$$f_{ni} = (c_{ni} * r_{ni}) + ((1-c_{ni}) * F_n)$$

Where: f_{ni} = Formula loss and loss adjustment ratio for individual classification i, in class n group;

c_{ni} = Credibility statistic for individual classification i, in class group n;

r_{ni} = Five year loss and loss adjustment expense ratio for individual classification i, in class group n;

F_n = Formula five year loss and loss adjustment expense ratio for class group n.

* In computing this ratio, for each of the 5 policy years taken into account, losses are developed to ultimate and to reflect unallocated loss adjustment expenses. In addition, they have been trended from the average date of occurrence to the midpoint of the first policy year for which they will be effective; premiums have been increased by the exposure trend factor to reflect the average date of earned exposure for the first policy year the rates will be effective.

Next, the total formula loss and loss adjustment ratio for each class group is recomputed, this time using individual classification data. This computation may be shown by the following algebraic equation:

$$f_{nt} = \frac{\sum (P_{ni} * f_{ni})}{P_n}$$

Where: f_{nt} = Total formula loss and loss adjustment ratio for class group n (using computed individual classification data)*;

P_{ni} = Basic limit premiums based on current rates, using exposures, after applying exposure trend factor, for most recent available policy year for individual classification i, in class group n.

Next, the formula loss and loss adjustment ratio for each individual classification is converted to an index which reflects its relationship with the total formula loss and loss adjustment ratio for its respective class group. This may be expressed algebraically as follows:

$$I_{ni} = \frac{f_{ni}}{f_{nt}}$$

Where: I_{ni} = Index for individual classification i, in class group n.

Next, the class rate change factor for the class group (as determined in subparagraph a, supra) is multiplied by the index for each individual classification. This, in turn, is multiplied by the present rate for each individual classification to produce the revised rate. As previously indicated, present ISO methodology provides for rounding the revised rate, and for limiting any rate increase to 100 percent of the present rate and any rate decrease to 50 percent of the present rate. An illustration of this entire methodology is depicted in Exhibit G.

* Note that $F_n \neq f_{nt}$

EXHIBIT G

Bodily Injury Class Group=4

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
ICC	Policy year ended 12/31/76 B/L premium at present rates	5 year loss & loss adjustment ratio	5 year credibility	Formula loss & loss adjustment ratio	Indices	Class rate change factor (6) x 1.250	Present rate	Revised rate
23801	\$3070552	0.836	0.57	0.769	1.116	1.195	0.140	0.200
24303	8947	0.0	0.0	0.680	0.987	1.234	0.190	0.230
25102	151574	0.714	0.08	0.683	0.991	1.239	0.250	0.310
28401	533848	0.648	0.19	0.674	0.978	1.222	1.700	2.100
28403	10027	3.046	0.04	0.775	1.125	1.406	1.900	2.700
28512	1528564	0.723	1.00	0.723	1.049	1.311	0.640	0.840
32501	2494	18.266	0.06	1.735	2.518	3.147	0.190	*0.380
32904	21597	0.296	0.16	0.619	0.898	1.122	0.090	0.100
34302	281694	0.245	0.14	0.619	0.898	1.122	1.000	1.100
34303	112306	0.488	0.15	0.651	0.945	1.181	1.000	1.200
34304	1103264	0.511	0.56	0.585	0.849	1.061	1.800	1.900
34500	493009	0.444	0.12	0.652	0.946	1.182	1.100	1.300
35801	293207	0.628	0.39	0.660	0.958	1.197	0.480	0.570
35802	68922	0.694	0.20	0.683	0.991	1.239	0.480	0.590
35804	44650	1.401	0.27	0.875	1.270	1.588	0.560	0.890
36301	1957	0.0	0.0	0.680	0.987	1.234	0.310	0.380
36601	10494	0.589	0.01	0.679	0.985	1.231	0.250	0.310
36901	190614	0.368	0.32	0.580	0.842	1.052	1.400	1.500
38405	958619	0.562	0.89	0.575	0.835	1.044	3.200	3.300
Total	8886339	0.680	1.00	0.689				

*Revised rate limited to 100% increase.

8. Credibility.--In considering the data reported with respect to individual classifications and class groups, ISO attempts to take into account a statistical measure of the validity of that experience. To do this, ISO computes a credibility statistic with respect to each class group and each individual classification.

The credibility statistic ("credibility") will vary between 0.0 and 1.0, with the former representing no credibility and the latter representing full credibility. Formerly, ISO had, based on its experience, determined that 683 claims were necessary for full credibility. A smaller number of reported claims resulted in credibility being equal to the square root of the quotient of such lesser amount divided by 683:

$$\text{Credibility} = \frac{(\text{number of reported claims (developed to ultimate)})^{1/2}}{(683)^{1/2}}$$

However, ISO has since changed its formula for determining credibility to take into account the variability of the reported experience.* For those classifications or class groups with low variability, as few as nine claims can produce full credibility; for classifications with high variability, there is theoretically no upper limits on the number of claims required for full credibility.

9. Miscellaneous Comments on ISO Data Base.--The data bases used for the development exhibits, the trend exhibit, and its aggregate rate adjustment exhibit are not parallel. Since 1974, ISO has shifted (a)-rated classifications to manual classifications, manual classifications to (a)-rated classifications, and otherwise created and/or dissolved classifications.

The development exhibit is horizontally homogeneous, but not vertically homogeneous. In other words, all classifications that were initially manual at the outset of a particular policy year are taken into account in tracking the development of that policy year, regardless of changes that may have been made with

* $\text{Credibility} = 1 / ((80)^{1/2} * r)$
Where r = coefficient of variation of loss ratios for a five year period (standard deviation of loss ratios divided by the mean).

respect to that classification. Hence, the development for a policy year ending prior to December 31, 1974 would include the maturing of classifications that are no longer manually rated. Thus, the development of any policy year may include data for classifications not contained in other policy years.

Similarly, the trend exhibit is vertically homogeneous. This means the only classifications included in the compilation of this exhibit are those which were manually rated for the earliest policy year taken into account, and which were manually rated for each successive policy year taken into account. Hence, this exhibit excludes experience from all classifications which have been changed from either (a)-rated to manually rated, from manually rated to (a)-rated, or which have been added or deleted for any of the six policy years used in the preparation of that exhibit.

Finally, the rate exhibit includes all manual classifications presently being used where exposures are available.

Since ISO has not made adjustments to its classification system after policy year beginning January 1, 1975 (which ends December 31, 1976), the losses shown on the present rate exhibit for policy year ending 1976 should, net of adjustments, be identical to that shown on the development exhibit. However, this is not the case for several reasons.

First, the loss development exhibit contains the "New York experience" which is not contained in the rate level exhibit. The "New York experience" are those industrial classification codes for which a rate is computed and filed separately for New York. These codes involve primarily textile and clothing industries for which New York has a sufficiently large experience so as to warrant its own rating.

Further, there will be differences as a result of editing errors--instances where data was rejected for loss development purposes as a result of reporting errors but was valid for purposes of the rate exhibit, and conversely. For example, if a loss was reported, without exposure units or with a patent error in exposure units, it could be used for the loss development exhibit but not for the rate exhibit.

Also the loss development exhibit will not include, for the policy year ending in 1976, multi-year policies issued prior to that time using the old classification system; the rate exhibit will take these amounts into account where the old classification in effect continues to be manually rated.

Finally, ISO has advised that a small number of insurers did not immediately adopt the new classification system which was first effective May 29, 1974 (during the policy year ending December 31, 1975). Where manually rated classifications are involved, the experience of these insurers may be reflected in the rate exhibit but not the loss development exhibit.

C. Excess Limits Coverage.²

1. Generally.--The rate for excess limits coverage (i.e., coverage in excess of basic limits), is expressed as a multiple of the basic limits rate. As with basic limits rates, excess limits factors, as these multiples are called, are computed separately for BI and PD. Moreover, the factors for BI are further subdivided into two classifications: One set of factors is applicable to those industrial classification codes with a potential for high loss severity, while the other is applicable to those codes with a potential for low severity.

ISO assigns a classification to the high hazard class if it has a high exposure to large losses (losses in excess of basic limits). Similarly, it assigns a classification to the low hazard table if it has a low exposure to large losses. Generally, this determination is accomplished by reviewing the ratio of excess losses to basic losses by classification: Large ratios are placed in the high hazard class; and low ratios are placed in the low hazard class. If a classification falls in the middle range, a group of underwriters reviews the description of the classification and decides whether it should be placed with the high or low exposures.*

The methodology set forth below is that presently used by ISO for determining the excess limits factors for BI rates.**

* In the most recent ISO filing there were also a number of classifications for which there was insufficient data upon which to make a judgment. In these instances, the underwriters used the classification description to make the proper placement.

** In the most recent filing, ISO made no adjustment of PD rates although presumably the same methodology would be applicable.

It should also be noted that the experience taken into account in determining the excess limits factors is significantly different than that used for determining basic limits rates. Unlike basic limits rates, the experience used in determining the excess limits factors includes the experience for the (a)-rated classifications, as well as the experience for industrial classification codes which are manually rated.

2. Loss Severity Distribution.--The starting point for computing excess limits factors is to compile a loss severity distribution. This involves an analysis of the loss experience for the four most recent policy years for which data is available.* Essentially, losses that have been reported are, for each report, grouped according to their size into one of 63 size intervals. For this purpose, losses do not include allocated loss adjustment expenses, which are treated separately (see paragraph 5, infra). Exhibit A illustrates the manner of this compilation for losses reported with respect to policy year ending December 31, 1975, as reported in March 31, 1977.

Since data for four policy years is considered, this results in ten such distributions (i.e., there will have been four reports with respect to the policy year ending December 31, 1973; three reports with respect to policy year ending December 31, 1974; two reports with respect to policy year ending December 31, 1975; and one report with respect to policy year ending December 31, 1976).

As is apparent from Exhibit A, the number of losses reported with respect to a severity interval generally decreases with successively higher intervals. Note also that there tends to be a clustering in intervals containing a "round number" such as the intervals containing \$15,000, \$20,000, \$25,000, \$50,000, \$60,000, \$75,000, \$100,000, etc. On the other hand, several intervals may have few, if any, reported losses. In order to

* At the time the most recent filing was made, data was available for only four years. ISO intends to expand the number of years taken into account effective with its next filing.

EXHIBIT A

SAMPLE LOSS SEVERITY DISTRIBUTION

(CALL YEAR 1977 POLICY YEAR 1975)

INTERVALS	CLAIMS	LOSS
1 - 250	363	27659
250 - 500	232	94050
501 - 1000	156	127546
1001 - 2000	136	211680
2001 - 3000	111	287346
3001 - 4000	43	158589
4001 - 5000	96	466013
5001 - 6000	18	102502
6001 - 7000	22	145769
7001 - 8000	50	380906
8001 - 9000	10	87950
9001 - 10000	58	577348
10001 - 11000	2	20600
11001 - 12000	26	310185
12001 - 13000	7	87900
13001 - 14000	7	95369
14001 - 15000	33	495000
15001 - 16000	3	47009
16001 - 17000	1	16961
17001 - 18000	8	142874
18001 - 19000	6	112628
19001 - 20000	36	720000
20001 - 21000	4	82051
21001 - 22000	1	21538
22001 - 23000	3	67750
23001 - 24000	5	119213
24001 - 25000	21	524850
25001 - 30000	16	464209
30001 - 35000	22	752281
35001 - 40000	19	737727
40001 - 45000	9	397900
45001 - 50000	25	1243844
50001 - 55000	4	212667
55001 - 60000	11	660000
60001 - 65000	2	126500
65001 - 70000	0	0

INTERVALS	CLAIMS	LOSS
70001 - 75000	14	1041000
75001 - 80000	9	706700
80001 - 85000	2	170000
85001 - 90000	3	268000
90001 - 95000	2	188000
95001 - 100000	12	1191980
100001 - 110000	1	105000
110001 - 120000	2	230767
120001 - 130000	3	380000
130001 - 140000	1	135000
140001 - 150000	7	1050000
150001 - 160000	0	0
160001 - 170000	0	0
170001 - 180000	1	180000
180001 - 190000	0	0
190001 - 200000	3	595000
200001 - 210000	1	203824
210001 - 220000	0	0
220001 - 230000	0	0
230001 - 240000	1	234000
240001 - 250000	2	500000
250001 - 260000	1	250500
260001 - 270000	0	0
270001 - 280000	1	275000
280001 - 290000	0	0
290001 - 300000	4	1200000
over 300000	4	3124250

"smooth out" this data, ISO fits a continuous curve to each of the ten reports. Essentially, these curves represent a probability estimate of the number of losses occurring in each severity interval.*

After fitting the continuous curve to the data points, ISO has available to it for each of the ten reports an estimate of the number of losses occurring in each of the 63 severity intervals, as well as the average loss for each interval.**

Having determined these ten continuous curves, ISO abandons the use of empirical loss data for the remainder of its computations in deriving excess limits factors; rather, it will use the estimates derived from the ten continuous curves. ISO will also use these curves to extrapolate losses which are substantially greater than have actually occurred: Excess limits factors are provided for limits as great as \$10 million/\$10 million although it is doubtful whether any actual losses of this magnitude have been reported.

3. Trend Factor.--While the trend exhibit prepared by ISO for submission to state insurance departments (Exhibit B) contains empirical loss information in columns 2 through 4, this inclusion is misleading since ISO does not use this data in its computation of the trend factor. Rather, the average unlimited loss for each of the four policy years used (column 5) is determined from the continuous curves plotted for each of the four policy years' first report (i.e., each of the 4 policy years at 27 months), with an exponential curve (exponential regression analysis) then being fitted to the four data points. Aside from differences, the methodology for this computation is identical to that used for the computation of the trend factor described at section B, paragraph 4, supra.

* ISO uses a Pareto distribution for its probability estimate. Moreover, for each of the 10 reports, due to the fact that ISO believes that one continuous probability distribution will not accurately depict the underlying loss process, the data points for losses of \$5,000 and below are fitted to one curve while losses above \$5,000 are fitted to another curve (the overall curve will still be "continuous").

** In addition to yielding the estimated number of losses for each interval, the probability analysis will necessarily yield the average loss for each interval.

EXHIBIT B

PRODUCTS BODILY INJURY

INCREASED LIMITS REVISION

CALCULATION OF TREND

(1) <u>Policy Year</u> <u>Ending</u>	(2) <u>Total</u> <u>Limits</u> <u>Losses</u>	(3) <u>Number</u> <u>of Claims</u>	(4) <u>T/L</u> <u>Average</u> <u>Loss Size</u>	(5) <u>Unlimited</u> <u>Average</u> <u>Loss Size</u>	(6) <u>Exponential</u> <u>Curve of</u> <u>Best Fit</u>
12/31/73	23,440,525	11,575	2025.10	2098.60	2259.89
12/31/74	29,195,987	10,663	2738.06	3231.36	2858.67
12/31/75	38,438,017	11,920	3234.67	3534.07	3616.11
12/31/76	50,933,547	12,450	4091.04	4458.85	4574.24

Average Annual Claim Cost Trend Factor*.....1.265
 Annual Factor Used Beyond 10/1/78 (1.265 - .005).....1.260

* The actual measured trend in average loss severity is used to bring losses to a 10/1/78 level. A reduced trend factor has been selected to project losses beyond this date, in anticipation of beneficial effects from the anti-inflation program.

The annual rate of change of this curve (i.e., the trend factor) was determined to be 26.5 percent. As in the case of basic limits losses, a one-half of one percent reduction was made for losses occurring after October 1, 1978 to take into account the Administration's anti-inflation policy.

4. Loss Development.--As with basic limits rates, it is necessary to develop the immature loss data for excess limits factors. However, in undertaking the loss development, significant deviations from the methodology used for basic limits rates should be noted.

First, the loss data used is that from each of the ten continuous curves, not empirical data. Second, the loss data for each of the ten reports is first trended to one year beyond the anticipated effective date. The trending is done so that the loss development factors--which are separately computed for each severity interval--are applied to the appropriate intervals. For example, a loss development factor derived for the interval 9,000-10,000 based on data for policy year n cannot, without trending, be applied to the same loss interval for policy year n+1, because for policy year n+1 the equivalent interval would be 9,000x-10,000x (where x is the percentage by which losses increase from one year to the next). By trending all reports to a common point in time, this difficulty is obviated.

After the trend factor is applied to the average loss for each severity interval, a loss development (the methodology for which is described in more detail at section B, paragraph 1, supra) is undertaken for each severity interval. From the loss development, loss development factors from each of the four reports to ultimate are derived by severity interval, in the form shown at Exhibit C. Note that since there are 63 severity intervals, there will be 63 iterations resulting in four factors (one to develop each of the four years to ultimate) for each iteration.

5. Allocated Loss Adjustment Expenses.--The computation of a trend factor and the loss development factors are made solely with respect to estimated incurred losses (derived from the continuous curves) without regard to the allocated loss adjustment expenses ("ALAE"). These are treated separately: Unlike losses, the allocated loss adjustment expense will not vary by the policy limit purchased (e.g., it will cost just as much to adjust a claim on a \$500,000/\$500,000 policy as it will to adjust the same claim on a basic limits policy).

EXHIBIT C

Loss Development Factors by Interval of Claim Size

(1) Claim size interval	(2) 27 months to ultimate	(3) 39 months to ultimate	(4) 51 months to ultimate	(5) 63 months to ultimate
1- 5000	1.01560	0.97304	0.96324	0.98145
5001- 6000	1.66810	1.26030	1.17376	1.08340
6001- 7000	1.66931	1.25659	1.16922	1.08130
7001- 8000	1.66911	1.25367	1.16258	1.07823
8001- 9000	1.67177	1.25158	1.16009	1.07708
9001- 10000	1.66967	1.24646	1.15140	1.07303
10001- 11000	1.67358	1.24594	1.14892	1.07188
11001- 12000	1.67939	1.24716	1.14853	1.07170
12001- 13000	1.67508	1.24032	1.13970	1.06757
13001- 14000	1.68043	1.24036	1.13721	1.06640
14001- 15000	1.67997	1.23706	1.13267	1.06427
15001- 16000	1.68099	1.23474	1.12804	1.06209
16001- 17000	1.68494	1.23438	1.12563	1.06096
17001- 18000	1.68784	1.23330	1.12313	1.05978
18001- 19000	1.69108	1.23285	1.12064	1.05860
19001- 20000	1.69139	1.22945	1.11602	1.05642
20001- 21000	1.69135	1.22708	1.11132	1.05419
21001- 22000	1.69787	1.22855	1.11114	1.05411
22001- 23000	1.69372	1.22270	1.10422	1.05082
23001- 24000	1.70108	1.22530	1.10405	1.05074
24001- 25000	1.70325	1.22371	1.10154	1.04954
25001- 30000	1.70920	1.22025	1.09337	1.04564
30001- 35000	1.72113	1.21580	1.08147	1.03994
35001- 40000	1.73383	1.21281	1.07140	1.03509
40001- 45000	1.74838	1.21166	1.06376	1.03139
45001- 50000	1.76103	1.21006	1.05601	1.02762
50001- 55000	1.77442	1.20938	1.04926	1.02438
55001- 60000	1.78952	1.21031	1.04465	1.02208
60001- 65000	1.80460	1.21173	1.04056	1.02008
65001- 70000	1.81726	1.21226	1.03580	1.01774
70001- 75000	1.83259	1.21449	1.03284	1.01629
75001- 80000	1.84705	1.21667	1.03042	1.01509
80001- 85000	1.86040	1.21834	1.02734	1.01358
85001- 90000	1.87679	1.22195	1.02620	1.01301
90001- 95000	1.89031	1.22463	1.02437	1.01211
95001-100000	1.90477	1.22770	1.02318	1.01152
100001-110000	1.92715	1.23323	1.02247	1.01117
110001-120000	1.95580	1.24024	1.02144	1.01066
120001-130000	1.98493	1.24833	1.02153	1.01071
130001-140000	2.01419	1.25672	1.02243	1.01115
140001-150000	2.04310	1.26552	1.02373	1.01180
150001-160000	2.07120	1.27394	1.02548	1.01266
160001-170000	2.09921	1.28275	1.02722	1.01352
170001-180000	2.12778	1.29218	1.02996	1.01487
180001-190000	2.15723	1.30201	1.03325	1.01649
190001-200000	2.18242	1.31001	1.03492	1.01731
200001-210000	2.21128	1.33001	1.03886	1.01924
210001-220000	2.23951	1.32975	1.04224	1.02090
220001-230000	2.26729	1.33949	1.04627	1.02287
230001-240000	2.29343	1.34854	1.04908	1.02425
240001-250000	2.32108	1.35820	1.05324	1.02628
250001-260000	2.34750	1.36747	1.05672	1.02797
260001-270000	2.37153	1.37534	1.05953	1.02934
270001-280000	2.40274	1.38734	1.06530	1.03213
280001-290000	2.42411	1.39410	1.06735	1.03313
>290000	3.22810	1.69174	1.21650	1.10295

First, factors which enable the ALAE to be developed to maturity are derived through a development procedure identical to that used for basic limits losses (see section B, paragraph 1, supra). Next, a trend factor for the ALAE is computed via an exponential regression analysis, also through a methodology identical to that used for basic limits losses (see section B, paragraph 4, supra).

6. Risk Loading Factor.--In addition to the preliminary computations, which are made prior to the ultimate derivation of the excess limits factors, ISO also determines a risk loading factor. It should be noted that this provision for risk is in addition to the 5 percent of premiums for profits and contingencies which is built into the basic limits rates computations.*

This additional risk factor is, in mathematical terms, proportional to the variance for a given risk's loss experience. (Variance will necessarily increase as policy limits increase.) ISO views the risk load as a reimbursement for the instability of a line of insurance.

The risk load chosen is also 5 percent, which is averaged over all sublines of general liability insurance of which product liability is but one. Since the risk load is proportional to variance, the riskier the subline, the greater the loading. (The product liability subline is one of the riskiest.) ISO has determined that a risk load value of 7.5×10^{-7} multiplied by the variance over all general liability sublines would yield approximately 5 percent. The effect of this risk load factor on the ultimate excess limits rates is depicted in Table D.

It should be noted that a risk load equal to 5 percent will produce a premium effect greater than 5 percent when additional expenses (such as production costs and taxes) which are accounted for as a percentage of premium are included.

For the product liability subline, with 43 percent of premium accounting for such additional expenses, a 5 percent risk load will result in a premium increase of approximately 8.7 percent. Thus, after taking into account the risk load (which for the

* To the extent that the excess limits factors are multiples of basic limits rates, the 5 percent for profit and contingencies is already reflected in excess limits factors.

EXHIBIT D
EFFECT OF RISK LOAD

LIMIT	Increased Limit Factors (Without Risk Load)		Increased Limit Factors (With Risk Load)	
	TABLE A	TABLE B	TABLE A	TABLE B
25/50	1.00	1.00	1.00	1.00
50/100	1.21	1.18	1.23	1.19
100/100	1.28	1.27	1.32	1.31
300/300	2.38	1.69	2.74	1.81
500/500	3.07	1.84	3.70	2.05

product liability subline--which is "risky"--is minimally 5 percent) and the 5 percent provision for profits and contingencies, the ISO rate structure is providing for at least 13.7 percent of premiums (5 percent plus 8.7 percent) for profit and contingencies.

7. Factors for Occurrence Limits (Where Occurrence Limit is Equal to Aggregate Limit).--Essentially, the methodology employed in computing excess limits factors is to determine the ratio that losses at a given policy limit bear to losses at basic limits. That ratio, when expressed in a form such that basic limits losses are equal to 1.0, will produce for a given policy limit the corresponding excess limits factor.*

In making these computations, the average losses (as estimated from the continuous curves) for the most recent report for each of the four policy years available is taken into account without any weighting as was done for basic limits. To these average losses, the appropriate loss development factor is applied so as to develop them to ultimate. Next, the trend factor is applied so as to produce the losses that are projected as of the midpoint of the first policy year for which the excess limits factors being computed will be used.

After these adjustments are made to the loss data, the allocated loss adjustment expenses for each of the four policy years under consideration are developed to ultimate, and their trend factors applied so as to produce the ALAE projected as of the same point as the losses.

Next, the risk load at each occurrence limit being computed is determined (the risk load will increase with successively increasing limits).

Finally, a table is constructed as follows: For each policy limit (beginning with basic limits), (1) the average losses (trended and developed); (2) the average ALAE (trended and developed); and (3) the risk load factor, are totaled. The

* It should be noted that this computation is being made only considering the occurrence limit. In other words, the model, as described thus far, does not take into account those situations where there is an aggregate limit as well as an occurrence limit. These will be described at paragraph 8, infra.

EXHIBIT E

PRODUCTS BODILY INJURY
 CONSTRUCTION OF INCREASED LIMITS FACTORS

(1)	(2)	(3)	(4)	(5)
Policy Limit Occurrence/ Aggregate (In Thousands)	Table A Avg.Loss Size	Table A Incr'd Limits Factors	Table B Avg.Loss Size	Table B Incr'd Factors
25/50	14,334	1.00	8,075	1.00
50/50	15,635	1.09	8,721	1.08
100/100	18,934	1.32	10,578	1.31
200/200	30,266	2.11	13,082	1.62
300/300	39,303	2.74	14,616	1.81
500/500	53,073	3.70	16,554	2.05
1,000/1,000	76,454	5.33	19,380	2.40

increased limits factor for each policy limit is merely the ratio of the total of items (1)-(3) at that policy limit to the total of items (1)-(3) at basic limits.* See exhibit E.

8. Increased Limits Factors Tables.--Note that as of this point in the analysis, ISO has merely derived excess limits factors applicable for those policies that contain only an occurrence limit. However, since in product liability insurance it is customary to market policies with an aggregate limit as well as an occurrence limit, further adjustments to the data must be made to provide for this.

In so doing, it must first be observed that the ISO empirical data base is ineffective to accomplish this. ISO does not receive information where as a result of multiple occurrences, the aggregate limit has been exceeded. For example, consider a situation where a risk has incurred several losses so that it has but \$3,000 left before the aggregate limit is reached. If a \$10,000 loss is now suffered, the insurer pays merely \$3,000 and reports that amount to ISO. No report is made with respect to the remaining \$7,000 of loss. Thus, the information reported to ISO understates the true potential of the loss severity distribution.

In order to compensate for this deficiency, a computer simulation is undertaken to produce an estimate of severity and frequency. Essentially, a loss experience of 1,000 risks is generated.

ISO describes the simulation as follows:

"The loss experience of 1,000 risks was generated. It was assumed that the distribution of number of occurrences per risk for this group followed a negative binomial distribution.... Since no detailed data on frequency for companies reporting to ISO was available (ISO) chose values for (frequency) in line with estimates obtained in the (insurance) literature.... Due to the fact that the simulation was constructed to apply to diverse groups of

* Note that unallocated loss adjustment expenses are not taken into account. This is because a constant factor would be included in both the numerator and the denominator of each ratio, thereby having no effect. Note also that basic limits losses for this computation is different from basic limits losses determined for purposes of making basic limits rates.

products classifications, (ISO) felt that a higher variance/mean ratio was indicated (than was reflected in the literature with respect to personal automobile insurance).... The parameters of the severity distribution for each group of risks were those derived (from the continuous curves). Once these parameters were chosen losses were randomly generated for each of the 1,000 risks, each risk incurring a number of claims generated by the negative binomial distribution. This experience was then limited to various occurrence/ aggregate combinations. To use 100/300 as an example, the loss experience was reviewed and each loss occurrence was limited to 100,000 and the total losses for each risk was limited to 300,000. For each of the occurrence/aggregate combinations both the mean and the variance of the losses per risk (pure premium) were calculated. The formula for the increased limits factor for a given occurrence/ aggregate limit m/n is then:

$$I_{(m/n)} = \frac{\text{Avg Loss(ltd to m/n)} + \text{ALAE} + \text{Risk Load(at m/n)}}{\text{Avg Loss(ltd to basic)} + \text{ALAE} + \text{Risk Load (at basic)}}$$

where all loss and expense terms are on a per occurrence basis."³

From this formula, the final excess limits table is derived. See Exhibit F-1 and F-2.

EXHIBIT F-1
High Severity
Products—Table A
Product/Completed Operations Bodily Injury
(Limits are in thousands)

Aggregate	Per occurrence											
	25	50	100	300	500	1000	1500	2000	3000	4000	5000	10000
50	1.00	1.09										
100	1.11	1.23	1.32									
300	1.18	1.64	2.23	2.74								
500	1.24	1.75	2.39	3.46	3.70							
1,000	1.29	1.82	2.50	3.93	4.64	5.33						
1,500					4.82	5.96	6.45					
2,000						6.15	6.95	7.35				
3,000						6.22	7.18	7.91	8.76			
4,000								7.99	9.21	9.92		
5,000									9.29	10.34	10.99	
10,000									9.34	10.48	11.51	15.31

EXHIBIT F-2
Low Severity
Products—Table B
Product/Completed Operations Bodily Injury
(Limits are in thousands)

Aggregate	Per occurrence											
	25	50	100	300	500	1000	1500	2000	3000	4000	5000	10000
50	1.00	1.08										
100	1.08	1.19	1.31									
300	1.15	1.34	1.49	1.81								
500	1.21	1.42	1.59	1.93	2.05							
1,000	1.26	1.49	1.65	2.01	2.17	2.40						
1,500					2.25	2.50	2.64					
2,000						2.58	2.74	2.84				
3,000						2.63	2.80	2.94	3.16			
4,000								2.99	3.21	3.43		
5,000									3.26	3.48	3.67	
10,000									3.30	3.53	3.76	4.66

FOOTNOTES FOR CHAPTER V

1. See generally Final Report, supra Preface note 3, at ch. V; Insurance Services Office, Product Liability Insurance Background Report on Statistical and Rating Procedures (1976); LaFalce Report, supra ch. II note 14, at 15-18; LaFalce Hearings (Part 2), supra ch. II note 1, at 539-66; Problems, supra ch. II note 1, at 155-80.
2. See generally Ad Hoc Increased Limits Subcommittee Insurance Services Office, A Review of Increased Limits Ratemaking (1979) (hereinafter cited as Ad Hoc Subcommittee Paper); R. Miccolis, On the Theory of Increased Limits and Excess of Loss Pricing (1977) (hereinafter cited as Miccolis); Rosenberg, Discussion of "On the Theory of Increased Limits and Excess of Loss Pricing" (n.d.).
3. Ad Hoc Subcommittee Paper, supra note 2, at 25-27.

VI. CRITIQUE OF PRODUCT LIABILITY INSURANCE RATEMAKING

A. Introduction.

1. Generally.--Having outlined the methodology used by ISO for product liability ratemaking, we will explore whether the methodology might be improved.

This consideration will necessarily involve amending ISO's commercial statistical plan, since it is through this vehicle that ISO captures its ratemaking data.

2. Source of Data.--While ISO has recently amended its Commercial Statistical Plan to obtain monoline (a)-rated exposures, the data base still excludes a significant amount of product liability experience. ISO estimates that at present it is receiving merely 50 percent of the total product liability data:¹ ISO does not receive data from non-member insurers, and it continues to capture only summary data for loss rated and large (a)-rated risks.

Our contractor has observed that there are four "practical reasons" for ISO not to collect loss rated data:

"(1) Collecting statistics not employed in actual risk pricing is, on its face, not cost justified.

"(2) The availability of classification exposures (from insurance buyers) may be restricted.

"(3) It cannot be concluded, a priori, that the statistical characteristics of the classification experience of large risks is properly combinable with that of small risks....

"(4) Moreover, because the statistical plan requires reporting at the level of classification, rather than at the level of insured entity, the availability of classification experience of loss-rated risks, by itself, would not permit definitive determinations as to the appropriateness of combining large and small risk experience."²

Notwithstanding the foregoing, our contractor recommended that the CSP be modified:

"...to require the reporting of classification experience for risks rated under the loss rating rule...."³

The contractor stated that:

"It is not prudent, in our judgment, to permit such a substantial omission in the statistical data base. The potential benefits derived from significantly increasing the data base, since the data on loss rated risks may be statistically compatible with other risks, might far outweigh the cost of eliminating the current omission." (Emphasis added.)⁴

While we are inclined to agree with our contractor's recommendation in this regard, we believe that this should be undertaken on an experimental basis, separately coding this experience. As this data will be reported by risks which in fact bear their own loss experience (and not loss experience of all other product liability risks), this separate data will be of little use in determining their rates. Similarly, since manual rates are determined by projecting the losses of all manually-rated risks to produce the required premium, loss rated data will be of little use in the setting of these rates on an aggregate basis. However, we see the primary utility of this information in potentially (1) enhancing the credibility of manually rated ICC's; and (2) facilitating a better rating for (a)-rated risks. With respect to this last group, it would appear that this information may well be helpful (1) as it could, for ICC's with a dearth of reported experience, demonstrate that what is ostensibly non-homogeneous experience is in fact homogeneous, qualifying for a manual rate; and (2) enhance the credibility of an (a)-rated classification. However, we are cognizant that, as a result of the sheer magnitude of some loss rated risks, their experience may be so divergent as to be of little, if any, use in these determinations. Thus, we would recommend that this experience be collected on an experimental basis. A three or four year study period should be sufficient to determine whether the continued gathering of this data is, in fact, warranted.

While the contractor has failed to comment upon the exclusion of large (a)-rates (which, but for the size of the premium generated, would otherwise be manually rated) it would appear that the exclusion of this data is premised upon the assumption that large (a)-rated risks are in some way different from other risks due to their size. Again, the only way to test this hypothesis is, in fact, to collect the detailed experience for the large (a)-rates on an experimental basis. In contrast to loss rated experience, this data may facilitate a more appropriate determination of manual rates only (by definition large (a)-rated risks would otherwise be manually rated): If large (a)-rated experience is similar to the corresponding manually rated classification, it could enhance the credibility of the manual classification.

As is developed more fully at Chapter II, section B, supra, it should be noted that as of January 1, 1977, ISO amended its statistical reporting requirements for composite rated risks involving product liability (other than those which are loss rated and large (a)-rated) to separately capture their product liability experience. Formerly, this data was reported only in a summary fashion along with non-product liability experience. As a result of the amendment, composite rated risks now require the separate reporting of product liability rate and exposure information. In a similar vein, ISO's statistical plan was also amended to require detailed exposure, premium, rate, and loss information with respect to commercial package policies--data which was also formerly reported merely in a summary fashion which included non-product liability experience.

It should also be noted that ISO presently collects data on a policy year basis which, as indicated previously, involves the experience generated over a two year period. Our contractor has stated that:

"The policy year loss ratio method has been criticized historically for the length of time (24 months) required for the experience to mature. ... The calendar accident year approach, which is used in other lines of business such as private passenger automobile and homeowners insurance, reduces this time lag from the date coverage is purchased to the date of data compilation by 12 months."⁵

As a result of this earlier maturation of data, it would appear that the calendar accident year compilation may be more desirable than the policy year methodology. Nevertheless, our contractor notes that the principal deficiency with the accident year methodology is an inaccurate matching of premiums earned with losses incurred. Moreover he states that the calendar accident year methodology will add "only one-half year of experience," and is thus not justified.⁶

Thus, the policy year method will begin reporting all the experience 27 months after its commencement, while the calendar accident year method will begin reporting one-half of the same information 15 months after its commencement. We believe that reporting on a calendar accident year basis may represent a significant enhancement in the ISO methodology insofar as timeliness of the data is concerned.* It would appear that any

* It should be noted that the experience for policy year 1976--which began on January 1, 1976--first became available during May 1980, four and one-half years later.

accounting difficulties could likely be overcome, as is made manifest in the case of the two lines where it is presently being used. Therefore, we recommend that the feasibility of using the accident year methodology be investigated. Alternatively, it would appear that similar results might be achieved if data is analyzed and reviewed on the basis of one-half of a policy year. Therefore, we recommend that ISO investigate the feasibility of using this latter methodology as well.

B. Basic Limits Rates.

1. Loss Development.--Loss development takes into account the aging of loss statistics related to a particular experience year. As our contractor has indicated:

"It is necessary to include in the ratemaking process an actuarial recognition of the impact of such loss development upon the loss values represented by the available raw (i.e., undeveloped) data. Through an examination of the development, or maturity of losses in older policy years, the costs for more recent years used in the ratemaking process can be adjusted to estimated final settlement values."⁷

Our contractor believes that this methodology--which uses historical loss patterns--may not properly reflect changes such as the shift in the adequacy of reserves. The contractor has stated:

"A shifting in the reserve adequacy either upward or downward brought about, for example, by industry overreaction to a real or self-imposed crisis, may not be properly reflected in this methodology. Specifically, if loss reserves were suddenly strengthened, the latest evaluation of each policy year's incurred losses would show higher values reflecting this reserve strengthening. These values would in turn be used to calculate the 'ratios' or loss development factors in the second step.... These higher ratios would be applied to incurred loss values which already include some degree of reserve strengthening. The resulting estimated loss values would tend to be overstated. Thus, the ISO methodology does not properly measure untoward changes in reserve adequacy, but rather serves to exacerbate the situation." (Emphasis added.)⁸

The contractor indicates that this potential problem, at least partially, can be avoided by modifying the current loss development procedure to include more than three years in computing the mean ratios for each reporting period.⁹

On the other hand, our contractor did not note that the use of a broader base than three years in computing the mean ratios would distort the results by including stale data when reserves are being adequately provided for. Moreover, ISO's present loss development (using three year means) shows no indication of reserve strengthening for those years with more than three years data available for analysis:

Chart 1

RATIOS - BI

POLICY YEAR	39:27	51:39	63:51
1969	-	-	1.114
1970	-	1.196	1.063
1971	1.333	1.107	1.078
1972	1.254	1.126	1.022
1973	1.485	1.159	-
1974	1.457	-	-
3-Year Mean	1.399	1.131	1.054
4-Year Mean	1.382	1.147	1.069

Note that the four year mean is not significantly different from the three year mean for each of the three reports, nor does there appear to be a discernible shift in reserving patterns over the four year period covered by each ratio.

Thus, it would appear that at this time, use of a broader base than the three years is not warranted. Nevertheless, in the future, if indications of unwarranted over or under reserving become manifest, then it may be appropriate at that time to employ a broader based average. However, to facilitate in discerning shifts in reserving, it is recommended that ISO provide in its development exhibit the ratios for all available years (not merely the maximum of four years presently provided).

ISO's recent shift from the use of paid claim data in the development exhibit to incurred claim data also warrants consideration. At the outset, note that our contractor's recommendation to include more than three years in determining the mean ratio would be unnecessary if paid claim data were used: Since paid claim data involves amounts actually paid out, reserve strengthening could not be a source of error.

While the use of paid claim data for loss development will necessarily negate potential errors due to over or under reserving of case reserves, it too is subject to difficulties. For example, the Closed Claims Survey has indicated that larger losses generally take longer to close than smaller losses.¹⁰ Thus, the use of paid claim data for development purposes would tend to mask any increase in the number of severe losses as these would not show up in the development until paid. On the other hand, such severe losses will show up if incurred data is used: Case reserves will be established for such losses as soon as they are reported.

Since shifts in the reserving practices will become apparent by changes in the ratios from one reporting period to the next--which to the extent unjustified can be mitigated via the use of an extended mean--it would appear that the use of incurred data for the development offers advantages over the use of paid claim data and should be continued.

In all events, our contractor also suggests that the review procedure be expanded to include additional methodologies including reviewing loss development by industry group and size of risk.¹¹ These would appear to warrant further study, as would development by size of loss (the type of development analysis which is undertaken by ISO for excess limits factors).

2. Claim Development Factors.--Under present ISO methodology for basic limits rates, allocated loss adjustment expenses are included with incurred losses, and are not accounted for separately. However, in determining the number of claims for the purposes of the claims development exhibit, ISO excludes from the count those claims where allocated loss adjustment expenses were incurred but for which no amount of loss was paid.

As the number of claims (as developed) is used in the trend exhibit to determine the average amount of loss per claim (which in turn is used to compute the trend factor), this exclusion results in an overstatement of the average amount of loss. The potential effect of this is to distort the computation of the trend factor. It should be noted that there will be no distortion in the computation of the trend factor only if the proportion of allocated loss adjustment expenses for which the claim count is zero to all incurred losses (including all loss adjustment expenses) is equal for each of the six policy years taken into account in the trend computation.

It would appear that this potential source of error can be eliminated by including in the claim count and development those claims where merely loss adjustment expenses are incurred.

3. Trend Factors.--Our contractor notes that "(T)he purpose of trend analysis is to estimate rates of change in the values of various statistics that are used in the ratemaking process. These estimations of rates of change are used to adjust historical data to levels anticipated during the future period for which rates are being made."¹²

Despite the general agreement as to the need to trend data for ratemaking purposes, our contractor notes two difficulties with the present methodology:

"A single mathematical function is in use for all trend lines....

"This function, an exponential curve, is selected based on a perceived good fit with respect to only the historical reported insurance industry statistics, or in the case of exposures, the historical commodities price index."¹³

The contractor continues:

"With respect to the first of these areas, it does not intuitively make sense that changes in sales should be predicted by the same mathematical function as are changes in loss costs. Yet, virtually without question, this same mathematical function, an exponential curve, is both used by the ISO and accepted by the regulator for trend projections in product liability ratemaking. Maintaining these traditional processes without periodic scrutiny can perpetuate rate level inaccuracies, and foster even more skepticism on the part of the public....

"With respect to the second area concerning the basis for trend selection, current practice continues to dwell on the theory of 'history repeating itself' since the mathematical function 'fitted' to the historical statistics is simply extended, indefinitely, to determine the future value of those same statistics.

"There is no required statistical test for goodness of fit of the selected function (note here that while the function of best fit is not necessarily the best function, one of poor fit is almost certainly inappropriate). Several functions should be tested to (i) eliminate those which provide a poor fit to the historical data and (ii) allow

the remaining functions to be evaluated further. Of those functions which produce a reasonably good fit to the historical data, the evaluation process should consider which of them are most likely descriptive of future conditions. This process should contemplate not only factors inherent in the 'insuring' process, but external data or indicators which can reasonably be expected to impact product liability statistics."¹⁴

While these comments certainly appear warranted, several additional observations and embellishments are in order.

First, the contractor suggests that ISO does not test for "goodness of fit," and implies that it uses a function of poor fit. From available information, this conclusion appears unwarranted. Specifically, in materials furnished to New Jersey in support of its filing, ISO did include its analysis with respect to the goodness of fit, which included a high coefficient of variation (suggesting a good fit).¹⁵ On the other hand, these comments are not to suggest that ISO seeks to use the best fitting curve, for it does not do so.

Moreover, until several years ago, ISO did not include an exposure trend factor (which takes into account the effects of increased sales due to inflation), in its ratemaking but instead assumed static sales. Thus, on the one hand, the making of this adjustment--regardless of the mathematical function used in its determination--is an improvement over ISO's former practice.

Nevertheless, despite these observations, the suggestions by the contractor have merit in both respects: ISO should seek the best mathematical function for use in computing the trend factors and should investigate the feasibility of using an improved methodology in computing the offset trend factor.

This latter represents a significant weakness in ISO's ratemaking procedure. Numerous sophisticated econometric models--including Chase, DRI, and Wharton--exist for projecting consumer price index values. The use of an exponential regression analysis for historic CPIC values certainly represents an unsophisticated predicative parameter. The difficulty is apparent when one considers that the present exposure trend factor is 5.8 percent, while the inflation rate has recently been two to three times this amount.

An additional point regards the number of data periods taken into account for purposes of making the trend and offset trend determinations. Presently, ISO uses 6 policy years data for computing its trend factor and 12 quarters of CPIC data in computing its exposure trend factor. The selection of these data periods represents ISO's best judgment. Nevertheless, if greater or fewer periods were included in the computation, the trend factors would change, as would the indicated rate adjustment. Charts 1 and 2 indicate the changes in the rate adjustment that will result from using between 6 and 3 policy years of loss data, and between 12 to 3 quarters of CPIC data for purposes of the trend computation*. Note that using 6 policy years' data and 12 quarters of CPIC data produces trend factors providing rate increases of 7.4 percent for BI and 17.5 percent for PD (the adjustments proposed in ISO's most recent filing). On the other hand, if the trend factors were computed from merely the 3 most recent policy years' data, together with the 3 most recent CPIC quarters (available to ISO at the time of its ratemaking), a rate decrease of 31.3 percent for BI and a rate decrease of 26.4 percent for PD would be indicated. Given the wide variation in possible results with a purely mathematical function, the contractor's caution to consider "external data or indicators" in determining the trend factors takes on greater urgency.¹⁶

In connection with the consideration of trend factors, our contractor discusses in some depth the fact that there is no overlap between the trend and development factors.¹⁷ However, he states that as a result of their multiplicative effect, "If one element has been misestimated, it will have a snowballing effect on the other factors...."¹⁸ It is important to observe that if an erroneously estimated loss development factor is used, this will affect the computation of the trend factor since it is derived from developed losses. Thus, in addition to errors as a result of the multiplicative effect (which will be made manifest in the projection of future losses based on historic data), the derivation of the trend factor per se will reflect any error in the loss development factors.

* See Appendix B for derivation of Charts 1 and 2.

Chart 1

AVERAGE LOSS RATIO & RATE ADJUSTMENT* (BI)

Number Qtrs**	Number of Years***							
	6		5		4		3	
	LR	ADJ (%)	LR	ADJ (%)	LR	ADJ (%)	LR	ADJ (%)
12	.612	+7.4	.636	+11.6	.596	+4.6	.428	-24.9
11	.608	+6.6	.632	+10.9	.592	+3.8	.425	-25.4
10	.607	+6.4	.630	+10.6	.590	+3.5	.424	-25.6
9	.603	+5.9	.627	+10.0	.587	+3.0	.422	-25.9
8	.600	+5.3	.624	+ 9.4	.585	+2.6	.420	-26.3
7	.600	+5.3	.624	+ 9.4	.585	+2.6	.420	-26.3
6	.599	+5.2	.624	+ 9.4	.585	+2.6	.419	-26.5
5	.588	+3.2	.612	+ 7.3	.573	+0.5	.411	-27.9
4	.573	+0.6	.600	+ 4.5	.558	-2.1	.401	-29.7
3	.560	-1.7	.582	+ 2.2	.545	-4.3	.392	-31.3

* Average loss ratio is determined by weighting the loss ratio for policy year ending 12/31/75 by .3 plus the loss ratio for policy year ending 12/31/76 by .7. The adjustment is determined by dividing the average by .570 (the loss ratio method).

** Number of quarters used in computing exposure trend factor.

*** Number of years used in computing trend factor.

Chart 2

AVERAGE LOSS RATIO & RATE ADJUSTMENT* (PD)

Number Qtrs**	Number of Years***							
	6		5		4		3	
	LR	ADJ (%)	LR	ADJ (%)	LR	ADJ (%)	LR	ADJ (%)
12	.670	+17.5	.653	+14.5	.577	+1.3	.458	-19.6
11	.666	+16.8	.647	+13.4	.573	+0.5	.455	-20.2
10	.664	+16.5	.646	+13.4	.572	+0.4	.454	-20.3
9	.661	+15.9	.642	+12.7	.569	-0.2	.452	-20.7
8	.658	+15.4	.640	+12.3	.567	-0.6	.450	-21.0
7	.658	+15.4	.640	+12.3	.567	-0.6	.450	-21.0
6	.657	+15.2	.639	+12.1	.566	-0.7	.449	-21.2
5	.644	+13.0	.627	+ 9.9	.555	-2.7	.441	-22.7
4	.628	+10.1	.611	+ 7.2	.541	-5.1	.429	-24.8
3	.614	+ 7.7	.597	+ 4.8	.529	-7.2	.420	-26.4

* Average loss ratio is determined by weighting the loss ratio for policy year ending 12/31/75 by .3 plus the loss ratio for policy year ending 12/31/76 by .7. The adjustment is determined by dividing the average by .570 (the loss ratio method).

** Number of quarters used in computing exposure trend factor.

*** Number of years used in computing trend factor.

Further, while the same mathematical function is used to derive the trend factor and the exposure trend factor, the resulting factors are used in an inconsistent manner.

With respect to the trend factor (computed for losses), it is first raised to a power equal to the difference between the average date of loss for the period for which rates are being made and the average date of loss for the historic year under review; the result is then multiplied by the historic losses to yield projected losses. Thus, implicit in its application is the assumption that losses for the historic period will increase annually at a rate equal to the trend factor.

On the other hand, the exposure offset is raised to a power which is merely the difference between the mid-point of the period for which rates are being made and the current level (i.e., the date that ISO is making rates). The change from the historic policy year to the current level is made by a linear, not an exponential factor, in an amount equal to the present CPIC level divided by the average CPIC level for the historic policy year. The historic period's exposures are multiplied by the linear factor and the exposure offset factor (as exponentially raised) to yield projected exposures.

Thus, historic loss data is treated as continually increasing at a constant rate, while historic exposure data is treated as increasing first at a linear (nonconstant) rate, and then at a constant rate. It would appear that if a strictly mathematical function is used, there should be parallelism in methodology.*

4. Determination of Aggregate Rate Adjustments.

a. Expense Loading.--The aggregate rate adjustment is made by comparing the projected loss ratio to a pre-established acceptable norm of 57 percent. The remaining 43 percent is accounted for by:

Production cost allowance	25 percent
General expense	10 percent
Taxes, licenses, and fees	3 percent
Underwriting profit and contingencies	5 percent
	<hr/> 43 percent

* In this regard one should note that from the data used in the most current filing, if the BI trend adjustment was made in the same manner used for the exposure trend adjustment, a lesser rate increase would be indicated; conversely, were the exposure trend adjustment made in the same fashion as the trend adjustment for losses, a greater increase in rates would be indicated.

The production cost allowance may vary from company to company:

"Actual commission scales are determined by agency contracts (between agent and insurer), and can vary substantially, and may even be partially dependent upon the volume and the loss ratio of the business produced.... There is no standard program for rate adjustment to reflect commissions lower than those anticipated in the budgetary production cost allowance. In other words, there is no way to reconcile the commission expense actually paid with that provided for in the manual rate level."¹⁹

To remedy this deficiency the contractor recommended that the "Implementation of a standard procedure to reflect varying commission levels would assure that this expense is consistently reflected in the rate level."²⁰ We support this recommendation.

Our contractor indicates that the general expense provision--which he states encompasses all insurer underwriting expenses (including policy writing, rating, statistical services, inspection, and audit)--is determined by using the experience of all agency companies which are members of or subscribers to ISO as the basis for review.²¹ This amount--presently 10 percent--is determined by using the latest three calendar years of data from the member or the subscriber companies.

The contractor notes that "this procedure will incorrectly estimate the expense provision during any period of time when the inherent expense levels are changing."²² Moreover, the contractor observes that the expense data used is not produced separately for product liability; rather, the data is that applicable to all general liability (other than malpractice).²³

With respect to general expenses, the contractor recommends that the current review procedure be modified "to better estimate anticipated future expense levels...rather than simply use historical averages."²⁴ Further, he suggests separate reporting of expense information for product liability ratemaking purposes.*

* It is unclear whether the contractor is suggesting that this separate reporting be to ISO or to the states on the annual convention statement.

Moreover, the contractor recommends that certain elements of the expense category:

"Clearly should be subject to gradation by size of risk or size of premium....The effect of gradation would be to reallocate total expenses by size of risk. The probable result of this would be to reduce the expense component of the premiums paid by larger risks, and to increase the expense component of the premium paid by smaller risks."²⁵

The contractor believes that including a charge to the insurance buyer for expenses--with the charge varying by coverage, by exposure, or by total risk--will result in a more equitable distribution of this amount.²⁶ Moreover, the contractor believes that the expenses of companies which are not ISO members or subscribers should be reviewed periodically "to regulate against excessive or inadequate expense provisions...."²⁷

The contractor's comments and recommendations fall into two categories--those relating to how the aggregate amount of general expense should be determined, and how that amount should be allocated. With respect to the first of these, we fail to understand why an industry-wide standard is appropriate. Implicit in his comments, the contractor assumes that there will be variations among insurers due to efficiencies and inefficiencies in their operations. Rather than using an industry-wide standard, we recommend the implementation of a procedure--similar to that recommended for commissions--to enable these varying levels of expenses to be taken into account by individual insurers.

With respect to allocating the general expense provision among insureds, it should be noted that the expenses involved are considerably more embracive than is connoted by the expression "all insurer underwriting expenses." Actual underwriting expenses--as that term is understood by the layman--account for only a small portion of total general expenses, which also include cost accounting allocations for general administrative salaries, insurance, advertising, directors' fees, rent, equipment, etc. In fact, many of the general expenses are truly "fixed expenses" and will not, contrary to the contractors suggestion, vary in the aggregate with the level of underwriting activity in the product liability subgroup. What will vary is the amount of these expenses that are allocated to the products subline. This factor becomes of significant import when considering the equity of the allocation presently being made to individual risks. To the extent that items of this expense are variable (e.g., audit of insureds' records,

surveys and underwriting reports, etc.), we would concur with the contractor's comments to allocate these expenses on a basis other than size of premium. However, to the extent that these expenses represent fixed costs or costs in no way determined by the writing of a particular policy, it would appear that the present manner of allocation of these items should be continued.

It should also be noted that expense loading includes a relatively small amount--3 percent--for taxes, licenses, and fees. This amount will vary among insurers as a result of the mix of businesses among the jurisdictions in which they do business.

Finally, it should be observed that expense loading includes a 5 percent provision for underwriting profits and contingencies, which will be discussed in detail at Chapter VIII, infra.

A review of our comments indicates the desirability of a procedure to take into account varying commission levels and varying general expense levels (to the extent that these are not direct costs attributable to specific risks). Based on our recommendations with respect to underwriting profits, as well as their own internal state policy, state regulators may make varying determinations with respect to the permissible level of these as well. Thus, any procedure implemented should be capable of accomodating varying levels of underwriting profit as well as varying commission levels and general expense levels.

To accomodate these concerns, we recommend that ISO publish rates which do not take into account any of the expense loading provisions. These could then be determined by the individual insurers, who would merely multiply the published ISO rate by a factor to reflect their own circumstances. To implement this procedure, ISO would merely multiply each of the now published rates in its product liability manual by .57. Each insurer would then, depending upon its circumstances, ascertain an appropriate factor to take into account its particular production cost allowance; general expense provision;* taxes, licenses, and fees; and underwriting profit and contingencies provision. If, for example, a particular insurer determined

* It should be noted that consistent with our recommendation with respect to certain items of direct underwriting expenses, such as audit of insured's records, surveys and underwriting reports, etc., these should be separately accounted for by an insurer in computing its general expense provision. These items should be charged directly to the risk with respect to which they are incurred.

that its aggregate expense load was x, then it merely has to divide each of the rates ISO would publish by the expression $(1 - x)^*$ to ascertain the rate to be charged.

While this methodology would, in most states, require insurers to make some form of filing with state insurance departments, we do not believe this to be overly burdensome: Their filing would merely reflect their individual expense situations which are presumably readily obtainable.

In addition to promoting greater equity in determining rates, this recommendation will likely result in increased competition among providers of product liability insurance.

b. Pure Premium v. Loss Ratio Method of Computation.--It should be observed that ISO presently uses a loss ratio method of determining rate level changes, rather than a pure premium method. These two methods may be described mathematically as follows:

LOSS RATIO METHOD

1.0 + Rate Change =

$$\frac{\text{Projected Losses / Premiums at Present Rate Level}}{\text{Current Provision for Losses / Premiums at Present Rate Level}}$$

PURE PREMIUM METHOD

1.0 + Rate Change =

$$\frac{\text{Projected Losses / Exposures}}{\text{Current Provision for Losses / Exposures}}$$

As is evident, mathematically, these two methods will produce identical results in terms of the indicated rate level change. Since premiums at present rate level cancel out of the first equation, and exposures cancel out of the second, the two formulae both reduce to:

* Because unallocated loss adjustment expenses also vary among insurers, it may be appropriate to require that these also be removed from the ISO published statistics. This would merely require that ISO multiply its present rates by .5253, instead of by .57.

$$1.0 + \text{rate change} = \frac{\text{Projected Losses}}{\text{Current Provisions for Losses}}$$

Our contractor indicates that ISO uses the loss ratio method because its exposure bases are not homogeneous.²⁸ While the predominant exposure basis is thousands of dollars of sales, exposure bases also include units produced, fillings, gallons, etc. As a result of this, our contractor has indicated that the pure premium method is presently unavailable;²⁹ however, ISO is studying the use of a uniform exposure base for all classifications, which would enable it to use a pure premium approach.³⁰

5. Credibility.--Our contractor has noted that ISO has recently introduced credibility considerations at the classification level "which recognize the variability of loss severity in addition to claim frequency (emphasis added)."³¹ The contractor has recommended that such consideration be made for "experience above the level of individual classification" --presumably at the subgroup level.³² We concur.

Our contractor observes that the effect of this recommendation:

"Would be to reduce the actual credibilities (by raising the standard for full credibility) and consequently to produce more moderate rate changes (in either direction). In the long run, there would be less chance of a large rate change in one direction one year followed by a change in the opposite direction the following year. This can result now due to statistical variation in loss severity which is not contemplated in the credibility process."³³

It should be observed that the actual credibilities will not necessarily be reduced, but could in fact increase: The introduction of severity considerations at the subgroup level would, in those instances of low variance, result in a reduction--potentially below 683--in the number of claims necessary for full credibility. However, the positive ameliorative effect is likely to be the same.

It should also be noted that credibility is determined without reference to the number of exposures. Thus, if a particular classification has no losses, but millions or even billions of exposures, its credibility will be zero. However, as a result of the introduction of severity considerations into the credibility computation, exposures are taken into account indirectly via variance in loss ratio. Thus, in the case of a classification with few losses, credibility will increase as the number of exposures increase.

C. Excess Limits Coverage.

1. Generally.

a. Data Base.--At the outset, observe that the data base used in the computation of the excess limits factors consists of both manually rated and (a)-rated experience. However, given the assumptions underlying the construction of the excess limits factors tables, separate tables may be warranted for manual and (a)-rated risks.

One of the initial assumptions in constructing the excess limits factors tables is that basic limits rates are generating adequate premiums. To the extent that these rates are manually determined, this is a reasonable assumption. However, to the extent that basic limits rates are (a)-rates, the assumption appears unwarranted. As our analysis with respect to (a)-rates indicates, they are presently set at a level which in the aggregate will produce more premiums than are necessary. To the extent that (a)-rates are producing premiums that are greater than adequate, excess limits factors--as presently determined--would exacerbate the existing inequity.

In any event, assuming that (a)-rated classifications were in the aggregate to generate adequate premiums, the methodology used for excess limits factors presupposes that this experience can be combined with the manually rated experience for purposes of computing trend and loss development factors. We are unaware of any empirical testing of this hypothesis: It would appear equally likely that (a)-rated classes trend and develop at statistically different rates than manually rated classes. We would recommend that such empirical testing be made. If the two data bases are combinable, then subject to the other recommendations contained here, we would agree that the present methodology be continued (noting, of course, that the potential for exacerbating unfairness in the (a)-rates remains, as that is inherent in the methodology). However, if the data bases are not combinable, then we would recommend separate tables for manual and (a)-rated classes.

Even were ISO to compute excess limits factors separately for manual rates, at present, the CSP does not capture information in sufficient detail to enable ISO to test the validity of these factors. As was alluded to in the discussion of excess limits factors, ISO does not capture loss experience which exceeds its reporting insurers' liability. Such losses can occur where, as a result of multiple occurrences, the aggregate

policy limit is exceeded; they can occur where as a result of a severe loss, the occurrence policy limit is exceeded; and they can occur where both the aggregate and occurrence limits are exceeded.*

Note also that as a result of this "data omission," any perceived increase in total limits average losses over several policy years is not necessarily attributable to increases in loss severity: At least some portion of the perceived increase may be attributable to increases in policy limits purchased by the insureds: As policy limits increase, average losses will increase for each policy limit since loss experience which would otherwise escape the ISO reporting mechanism would be captured.

b. High Hazard and Low Hazard Severity Tables.--The use of high and low loss severity tables for excess limits factors is an attempt by ISO to minimize cross subsidization of risks. Were a single table in use, risks with lower potential severity would be subject to higher factors than under the present scheme. Conversely, risks with potentially high severity would be subject to lower factors than is presently the case.

Since the derivation of the high and low severity excess limits factors tables reflect merely the loss experience which is included in their derivation, the distinction appears appropriate. Of course, borderline cases will always result in some amount of cross subsidization: Depending upon which category the borderline classification is placed, cross subsidization will occur either in favor of the classification or against the classification. Note, however, that even were a third or fourth category (e.g., for medium risks, high-medium, etc.) established, the difficulty with borderline classifications would persist (albeit the magnitude of potential cross subsidization would decrease).

While there may be some merit to including a new third, severity grouping--medium severity--we merely suggest that the feasibility of such a table be considered. We have stopped short of recommending the creation of a new grouping because our previous recommendations may result in separate tables for manual and (a)-rated classifications. Assuming that the high

* The first situation will give rise to an understatement of loss frequency; the second an understatement of loss severity; and the last, an understatement of both loss severity and frequency.

and low severity distinction would be maintained, there would then be four tables in lieu of the present two; inclusion of a medium severity will inject further complexity into the product liability pricing determinations. Similarly, while the inclusion of a medium severity excess limits factors table would add greater equity to the system, it would necessarily have the effect of increasing the excess limits factors applicable to the high severity classifications. At the upper limits, the differences between high severity and low severity excess limits factors is already substantial (e.g., at \$5,000,000 the low severity factor is 3.67, and the high severity factor is 10.99). Therefore, from the perspective of providing affordable product liability coverage, a third severity grouping may be undesirable. It is a matter that should be considered by ISO.

2. Claims Severity Distribution.--Given the limited resources available for this report, we are unable to comment on the adequacy of using a Pareto parameter to produce the continuous curves used in the excess limits factors computations. Nevertheless, we observe that, subject to the reservations recited here and assuming that the Pareto is the most appropriate function, the methodology used by ISO in formulating its excess limits factors appears valid.*

Despite these observations, it is recommended that the state regulatory bodies--which should possess the actuarial expertise to appropriately evaluate the use of this function--study the curves and determine whether the results are in fact appropriate. To the best of our knowledge, this is not being done. In the New Jersey filing review (the only product liability filing of which we are aware where the state regulator has held hearings inquiring into the validity of rates), the data points and computation which would be necessary to validate the use of the Pareto parameter were neither furnished to, nor requested by that state.

One additional point is worthy of note: In its stratification of severities, ISO includes all losses valued at \$300,001 and above in the same stratification. Despite the expected scant

* We observe also that ISO, in its quest for the "best function," formerly used a lognormal distribution in effectuating a similar analysis; this was abandoned as a Pareto function was determined by ISO to be a better estimator.

frequency of losses above this level, it would appear that severity levels above \$300,000 should be separately considered, since virtually all of the excess limits factors pertain to limits above this level.

3. Trend Factors.--It should be noted that the trend factor is computed with respect to the reports made at 27 months, as distinguished from fully developed incurred losses (computed from each of the most recent reports).

Presumably part of the difficulty in doing so is that the trend factor is required prior to determining the loss development factors (of which there are 252). Nevertheless, the feasibility of designing an appropriate computer program to determine both the trend factor and the loss development factors simultaneously should be investigated. Such a program should determine the trend factor on the basis of fully developed losses and not on the 27 month loss data as is presently the case.

As in the case of basic limits trend factors, the selection of data points is of considerable importance in that it dramatically affects both the magnitude of the trend factors as well as the indicated rate adjustment. While ISO used four data points to produce an indicated trend factor of 26.5 percent, note that the use of three data points reduces the trend adjustment to merely 17.5 percent. As in the case of basic limits rates, as a result of the exponential use of the trend factor, the ultimate effect on the levels of the excess limits factors will be considerable.

4. Loss Development.--The methodology used by ISO in determining the loss adjustment factors--using trended data--seems appropriate for the reasons described in the exposition. Nevertheless, it appears that the loss adjustment factor for losses of \$300,001 and above may be overstated as the result of the failure to provide severity intervals above this level. If loss data were analyzed in greater detail, it is suspected that the loss development factor would not take the quantum leap between losses of \$290,001 to \$300,000 and losses of \$300,000 and above (e.g., compare the increase between these intervals at the first report, from 2.4241 to 3.22810 --33.2 percent--to the increase between \$27,001 to \$280,000 and \$28,001 to \$290,000 at the first report, from 2.40274 to 2.42411 --0.9 percent).

While the loss development presently uses merely four reporting periods, this results from the lack of data for earlier periods. While it is clear that ISO intends to expand the number of reports employed as data becomes available, it is

presently uncertain to what extent ISO contemplates so doing in this regard. We would recommend that the data used should ultimately include 10 reports--the same number of reports contemplated for loss development for basis limits rates.

5. Allocated Loss Adjustment Expenses.--While these are treated entirely separately, and are subject to their separate development and trend analysis, these analyses are not routinely furnished to the states. For example, in connection with the New Jersey review, it appears that state neither requested, nor did ISO provide, the trend and development exhibits reflecting the computations made with respect to allocated loss adjustment expenses. It would appear that these should be routinely furnished to the state regulators for review, subject to the general considerations set forth in the basic limits section and with respect to loss development and trending.

6. Risk Loading Factor.--At the New Jersey filing hearings, there were suggestions made that it is appropriate to consider risk load in the context of the overall rate of return received by the insurers from writing product liability insurance (the 5 percent "budgeted" profit plus investment income from reserves).³⁴ Despite these suggestions, we believe that some form of risk load is appropriate, regardless of the magnitude of rate of return determined as proper by the regulators, and regardless of whether this rate of return includes or excludes investment income.

This statement may be illustrated by considering an insurer with a choice between ten risks with \$100,000 limits each, or one risk with a \$1 million limit. "(A) risk-adverse actuary should argue for the ten separate policies in order to reduce the likely variation from the expected losses. However, there should be some ... charge that would make such an actuary indifferent between the two choices based on some rational and objective criteria,"³⁵ the criteria used being variance.

Note that in the example, the risk-adverse actuary will always opt for the ten policies, regardless of the level of profits and/or investment income permitted. Thus, even were insurers permitted an excessive amount of profits and investment income, a risk load would still be appropriate to induce the insuring of higher limit risks.

Nevertheless, the magnitude of risk load is necessarily functional to profitability considered without the risk load. In other words, the inducement needed to write policies with higher limits should increase as the profitability from writing

policies with lower limits increases and conversely. Thus, to the extent that the present choice of risk load is 5 percent, were the permitted standard of profitability reduced, the risk load should be reduced accordingly as well.

7. Factors for Aggregate Limits.--As was mentioned in the exposition, all four years presently being used are included in the computation of the aggregate rate adjustment. This appears to place unnecessary emphasis on "stale" data; it would appear that a weighting that emphasizes the most current data would be more appropriate. This weighting could include only the two most recent years (as in the case of basic limits where the two most recent years are weighted 0.7 and 0.3 with the balance of the experience being ignored), or, if deemed more appropriate, the weighting could include all four years. Regardless of the methodology selected, it would appear that the most current experience is entitled to more consideration in the ultimate rate adjustment than is presently the case.

8. Increased Limits Factors Tables.--As was discussed in the exposition, ISO uses a computer simulation of 1,000 claims in the construction of its excess limits factors tables. The frequency of these claims for a particular classification is generated pursuant to a negative binomial distribution with values selected "in line with estimates" obtained from insurance literature.³⁶ As in the case of several of our earlier comments, we are not in a position to pass upon the validity of the assumptions or parameters used in the computer simulation. However, we would recommend that the states undertake such analysis.*

In New Jersey, which as mentioned earlier, was the only state to consider the validity of the ISO ratemaking in this area, it appears that no consideration was given either to the computer model or the results obtained from it. Since the validity of this computer model would appear to be central to evaluating the validity of the excess limits factors, it would seem impossible for any state to form an opinion with respect to the validity of excess limits rates without it.

* As these talks are in use in virtually all states, the states might delegate responsibility for implementing this recommendation to the NAIC to avoid unwarranted duplicative efforts.

FOOTNOTES FOR CHAPTER VI

1. Problems, supra ch. II note 1, at 167.
2. Contractor Report, supra ch. IV note 4, at 68.
3. Id.
4. Id. at 69.
5. Id. at 34.
6. Id. at 35.
7. Id. at 37-38.
8. Id. at 38-39.
9. Id. at 40.
10. See Closed Claim Survey, supra ch. II note 4, at 80, 224-25, 408-09.
11. Contractor Report, supra ch. IV note 4, at 40.
12. Id. at 41.
13. Id. at 42-43.
14. Id. at 43-44.
15. Insurance Services Office, Supplementary Materials
Furnished to New Jersey Insurance Commission 24-25 (hereinafter
cited as N.J. Filing Supplement).

16. Contractor Report, supra ch. IV note 4, at 44.
17. Id. at 44-45.
18. Id. at 46.
19. Id. at 49.
20. Id. (emphasis in original)
21. Id.
22. Id.
23. Id.
24. Id. at 50.
25. Id.
26. Id. at 50-51.
27. Id. at 51.
28. Id. at 36.
29. Id.
30. Id.
31. Id. at 47.
32. Id.
33. Id.

34. E.g., Transcript, Insurance Services Office Filing on Product and Completed Operations, N.J. No. G-L-79-633, at 19-20 (Nov. 1, 1979).

35. Miccolis, supra ch. V note 2, at 15.

36. Ad Hoc Subcommittee Paper, supra ch. V note 2, at 26.

VII. UNDERWRITING AND PRICING PRODUCT LIABILITY INSURANCE

A. Generally.--Underwriting has been defined as "the process of hazard recognition and evaluation, risk selection, pricing, and determination of policy terms and conditions."¹ The American Insurance Association ("AIA") has described the underwriting function as a "decision-making process," and has broken it down into six steps:²

1. developing underwriting information;
2. identifying exposures to loss;
3. analyzing and evaluating the underwriting information and the identified exposures to loss;
4. optimizing the underwriting alternatives;
5. risk selection; and
6. monitoring the decision.

Each of these steps, in so far as it relates to product liability, will be briefly discussed below.

B. Developing Underwriting Information.--Beginning with an application or proposal for product liability insurance, it must first be determined what information is necessary to make a decision. In this connection, AIA has observed that "underwriting information is an expensive commodity"; therefore "it is important that sufficient information be obtained but not more information than is necessary."³ This would include information directly related to the prospective insured such as (1) its name and owners; (2) the name of the producing agent or broker; (3) a description of operations of the prospective insured; (4) the "loss history" of the prospective insured; (5) any loss control programs, product recall procedures, quality control, and other information as to how the prospective insured controls losses; (6) does the prospective insured have effective management; (7) what is the present financial condition of the prospective insured; and (8) is the producer aware of any critical information about the prospective insured which could be helpful in loss control efforts. In addition, other "basic" information is required of a more remote nature: (1) the competitive situation (Is the prospective insured having difficulty with its current insurance company? Is there a possibility of long-term relationship?) and; (2) the potential to write other lines of coverage, apart from product liability, for the prospective risk.⁴

C. Identifying Exposures to Loss.--This stage of the decision-making has been described as attempting to answer, "What losses can happen?"⁵ In order to address this question, the underwriter may review different information sources such as

"applications, loss control reports, outside fee company inspection reports, various financial documents, the risk's own product and sales catalog, loss data and flow charts."⁶ In all events, it is difficult to ascertain all potential exposures for a given risk. AIA has noted, for example, that component part manufacturers "are sometimes difficult to underwrite because it may be impossible to identify the end product that the component will be part of."⁷

D. Analyzing and Evaluating the Underwriting Information and the Identified Exposures to Loss.--This step has been described as the estimating of the likelihood of a loss occurring and the placing of a dollar value upon it. This involves an assimilation of the previously gathered information. Specifically, the form of ownership, management, financial condition, exposures to loss, controls, and past performance all must be considered.

This determination will principally involve use of the manual rate, where one exists, modified by schedule and/or experience adjustments. In the event that a manual rate does not exist, or in the event that (a)-rating is available as a result of one of the exceptions to the use of manual rates, then the loss potential will be determined "on the basis of the underwriter's informed judgment...."⁸

E. Optimizing the Underwriting Alternatives.--It is at this level of decision making that the underwriter determines the possible alternative rating methods available to him.

For example, as we have seen, a manual rate may be applicable or a judgment rate must be determined. Similarly, experience and/or schedule modifications may be available. Further, as a result of the size of risk, it may be eligible for loss rating or large (a)-rating. Under the present manual, the risk may also be eligible for Rule 24H rating.*

In addition to the various rating techniques that may be available, the underwriter can suggest means of modifying the risk:

* AIA has suggested that retrospective rating--where a portion of the premium will be returned if the risk's experience is favorable, or additional premium will be paid if unfavorable--is used for product liability insurance. However, ISO has indicated that retrospective rating is virtually non-existent for product liability insurance as a result of the length of time necessary to finally close all claims.

"For example, if a particular product for a given product line turns out to be dangerous, it may be best to avoid the exposure by discontinuing that particular product. The installation of a safety device or the redesign of a machine may eliminate a particular hazard. Improved labeling or user instructions may reduce the potential for loss...."⁹

Similarly, the underwriter might modify the coverage. In other words, deductibles could be utilized to reduce frequency of low level claims. Coverage for a particular product may be excluded all together; a claims made policy may be employed in lieu of the customary "occurrence policy".

Finally, the underwriter may determine it appropriate to modify the retention of the insurer via facultative reinsurance. In other words, the insurer will write the risk in its entirety, intending to reinsure losses in excess of the amount deemed appropriate by the underwriter.

F. Risk Selection.--This involves the actual decisionmaking. Essentially, there are three alternatives: to accept the risk as submitted; to accept the risk with modifications; or to decline insurance. Assuming that it is determined that the risk should be written, the optimum rating technique is selected.

Presumably, the decision made at this level will logically follow from the previous determinations made by the underwriter.

G. Monitoring the Decision.--Finally, once a determination is made, AIA has indicated that it is necessary that it be documented in order to facilitate review. Further, "on larger risks, a formal interim review of the risk may take place" evaluating such factors as "loss experience, financial condition, coverage changes, status of loss control program, changes in operation."¹⁰ If appropriate, mid-term corrective action may be indicated.

H. Other Observations.--It should be noted that the underwriting process is fraught with judgment. It is dissimilar to underwriting consumer-type insurance such as life, health, personal automobile, etc., where the rate can be determined merely from a published table and adjusted to take into account particulars relating to the insured by published modification factors. This is not to suggest that the underwriter's discretion is bad per se; it is merely to indicate that it is necessarily present.

While not expressly articulated by AIA in its review of product liability underwriting, the underwriting process offers the opportunity to mitigate inequities built into the product liability ratemaking mechanism. Several examples will help to illustrate.

1. Safe Product Dilemma. In many instances, additional safety factors can be built into a product at additional cost to the manufacturer. However, a strict adherence to the manual rate would penalize a manufacturer for so doing. For example, consider Manufacturer A, who sells an average widget for \$x, and Manufacturer B, who as a result of additional production costs, sells a widget with all known safety features for \$x + \$y. Generally, if each sells the same number of widgets, Manufacturer B will pay a higher product liability premium than Manufacturer A, since the rate is applied to sales volume. This will be true despite the fact that Manufacturer B has produced a safer product, and thus has less potential for loss than Manufacturer A.

2. Long Life Product Dilemma. This dilemma may be illustrated by again considering two widget manufacturers C and D (widgets remain in service for periods in excess of 20 years). Manufacturer C, an old line widget manufacturer, has sold 1,000 widgets annually over the past 20 years, all of which are still in service. It continues to sell widgets at the rate of 1,000 per year (at \$z). Manufacturer D, on the other hand, has just opened its doors. The first year it expects to sell 1,000 widgets, also at \$z. Under strict application of the manual rate, the two risks will require equal premiums, despite the fact that Manufacturer C has 20 times as many products outstanding which can potentially cause injuries.

3. Multiple Product Inequity.--In those instances in which the same business has its product liability insurance priced pursuant to more than one ICC, as a result of the manner in which its premium is computed, another inequity results. This may be illustrated by considering Company EF which manufactures product E and product F, with sales of \$1 million for each of the two products. If the rate applicable to product E is \$e per \$1,000 sales, and the rate applicable to product F is \$f per \$1,000 sales, then its basic limits premium would be $\$(e)(1,000) + \$(f)(1,000)$.¹¹ This would purchase a single basic limits policy with an occurrence limit of \$25,000 and an aggregate limit of \$50,000. If Company EF were to have aggregate losses with respect to product E of \$50,000 and aggregate losses with respect to product F also in the amount of \$50,000 (no single loss exceeding \$25,000), the policy would cover only \$50,000 of such losses since the aggregate policy

limit would apply. Thus Company EF would be out of pocket \$50,000 on account of its loss experience. However, Company EF in effect paid for two basic limits policies, one for product E, and one for product F. The inequity can be highlighted by contrasting the results of this example with the results that would obtain if Company EF reorganized so that it became a holding company, owning a 100 percent of the stock of two subsidiary companies, Company E and Company F, each of which manufactured products E and F, respectively. If Company E and Company F each purchased their insurance separately, the former's product liability premium would be \$(e)(1,000) and the latter's would be \$(f)(1,000)--the same total premium payable without regard to the reorganization. However, in this latter case, this same premium would purchase two basic limits policies. Thus, were each company to sustain \$50,000 in losses, each company's losses would be fully insured.

All three potential inequities become exacerbated in cases where excess limits are purchased.

Through the underwriting process, the inequities inherent in these situations and others can be mitigated. It is for reasons such as these that we recommended that no dollar threshold be required for the use of schedule modifications; were the rule otherwise, these inequities would continue to exist without remedy, especially in the case of small product sellers.

I. Conclusions.--As is apparent, the underwriting process necessarily requires the exercise of considerable judgment by an insurer's underwriter. However, to moderate the unfettered exercise of this discretion in a competitive environment, our recommendations with respect to both manually rated policies and (a)-rated policies require that the reasons for deviations from the otherwise indicated rate be made available to the prospective insured prior to the time that the policy is issued. By so doing, this will afford the prospective insured the opportunity to correct any misinformation or misinterpretation concerning the risks, as well as to seek insurance elsewhere in event that it believes the underwriter is not appropriately taking into account all judgment factors.

FOOTNOTES FOR CHAPTER VII

1. J. Laurie, J. Lee, & N. Baglini, Principles of Property and Liability Underwriting 2 (1977), quoted in AIA Underwriting Paper, supra ch. IV note 18, at 2.
2. AIA Underwriting Paper, supra ch. IV note 18, at 14-15.
3. Id. at 16.
4. Id. at 16-19.
5. Id. at 19.
6. Id.
7. Id.
8. Id. at 21.
9. Id. at 22.
10. Id. at 28.
11. See Memorandum by Ned Price, Chairman, NAIC Task Force on Product Liability, on Case Histories of Diversified Industries, Inc. and Wall Products Manufacturers (Feb. 14, 1979).

VIII. TIME VALUE OF MONEY AND INVESTMENT INCOME

A. Generally.--The ISO ratemaking methodology does not take investment income into account. It essentially projects historic losses into the future, projects historic premiums at the present rate level into the future, and determines a projected loss ratio based upon present rate levels. From this, the ultimate rate adjustment is determined so as to produce a normal loss ratio of 57 percent. In making these projections, ISO projects losses to an average date of occurrence* and premiums to an average date of earned exposure.* Implicitly, this methodology presupposes that the insurer's average date of receipt of premiums was on the average date of earned exposure and its average date of payment of losses and expenses was on the average date of occurrence. However, this assumption does not reflect what actually occurs: In fact, an insurer generally receives premiums with respect to a product liability insurance policy prior to the time it pays losses and expenses attributable thereto. Thus, the insurer has the use of this money from the average date of its receipt to the average date of payment of losses and expenses. These funds are not held by the insurer as cash, but rather are invested to earn income. This income is not accounted for by the insurer as arising out of writing product liability insurance; instead it is included with the insurer's other investment income.

The Closed Claim Survey indicates the length of time between the average date of occurrence and the average date of payment: It shows that 49.3 percent of all claims are closed within 42 months after the date of occurrence, with the remaining 50.7 percent thereafter.¹ However, note that the average date of occurrence is six months subsequent to the average date a policy is written. Even assuming a three month delay by producers in remitting premiums to the insurer, the time between the average date of writing and the average date of occurrence is still three months. Thus, the present ratemaking methodology provides for what is tantamount to an interest free loan for 45 months to the insurer of approximately one-half of the 57 percent of premium representing projected losses. During this time, the insurer has the use of this money; the insured does not.

* In the case of product liability insurance, these two dates will coincide. See Chapter V, section B(5), supra.

B. Controversy.--In these inflationary times, where insureds have become more conscious about the time value of money--where Treasury Notes, the safest and most highly liquid of all investments have yielded over 12 percent--it has been urged that the ratemaking process should take investment income into account. Our contractor has described the difficulty in implementing changes to effectuate this as arising from "differences of opinions of regulators, insurers, insureds, and investors" with respect to two central issues:

1. The risk involved in underwriting insurance; and
2. What constitutes a fair return to the individual underwriter.²

With respect to product liability insurance, and with respect to individual insurers, our contractor suggests that there are no universal answers. For example, he notes that it may be appropriate to consider (1) profitability of product liability insurance in view of "other coverages underwritten" by a particular insurer; (2) the effect of a particular insurer's premium to surplus ratio (e.g., "A one percent return on premium is significantly more attractive to stockholders of a company writing \$3.00 of premium for every \$1.00 of capital than to stockholders of a company writing \$1.00 of premium for every \$1.00 of capital"); and (3) differences in short and long term perspectives with respect to product liability insurance.³ While our contractor has indicated that frequently the controversy has focused on which of the many formulae is most appropriate for taking investment income into account, this approach should be rejected, "if for no other reason than the fact that investments in any given portfolio will vary by type and maturity."⁴

Moreover, our contractor believes that taking into account investment income potentially results in other problems:

"For example, an approach emphasizing the regulation of the rate of total return measured in terms of premium could conflict with regulating for insurer solvency, since perceived investor return requirements could demand increasing premium too quickly and/or beyond a safe level. Conversely, emphasizing the regulation of the rate of return on net worth could lead to an availability problem for high risk insureds, clearly in conflict with the objective of promoting market availability."⁵

Nevertheless, it must be observed that the present inaction--not taking investment income into account--necessarily impacts solvency and availability: The status of both reflect present levels of investment income.

C. The Magnitude of Investment Income.

1. Generally.--Until now, the discussion of investment income has been conceptual; it has not considered the magnitude of the investment income that is involved.

In so doing, observe that in traditional insurance accounting, any income an insurer earns as a result of the deferral in its payment of losses attributable to product liability insurance is never linked with its product liability insurance: It is neither separately reported to ISO, nor has it historically been accounted for on other than an aggregate basis to the state commissioners pursuant to the annual convention statement.* As will become evident below, the amount of this investment income is quite substantial. In all events, overall profitability is increased further yet as a result of the provision in the manual ratemaking process for a five percent underwriting profit.

2. Investment Income.--In order to ascertain how much investment income is in fact generated from product liability insurance, we constructed a model utilizing the following assumptions:

a. We assumed that a one year product liability insurance policy was purchased on January 1, 1980 covering only bodily injury. The premium for the policy was \$100 which was paid by the insured on that date and remitted to the insurer on that date.

b. Expenses of \$28 were paid by the insurer on January 1, 1980 which include \$25 of production expenses and \$3 for taxes, licenses and fees (the amounts provided by the ISO manual ratemaking formula).

c. General expenses of \$10 were paid ratably throughout 1980--the year that the policy was effective.

d. Underwriting profit of \$5 was provided for. To be conservative, we have not included in our analysis the investment income attributable to this amount.

* But see discussion of NAIC product liability supplement, at Chapter IX, section B, infra.

e. Loss and loss adjustment expenses of \$57 (the amount used by ISO in its manual ratemaking formula) were paid out over a twelve year period in accordance with the untrended occurrence to closing ratios in the Closed Claim Survey.⁶

f. To be conservative, a provision for Federal income tax is provided at 13.4 percent annually, the rate of tax shown accrued by the property/casualty industry during 1978 by Best's Aggregates and Averages. (The amount actually paid is substantially less: While for 1978 Federal income taxes were accrued in the amount of \$1.388 billion, Federal income taxes of \$0.885 billion were due and owing at the end of such year.)

g. The average date of payment of losses and loss adjustment expenses is the midpoint of each calendar year.

h. A pretax rate of return is available on investments at 7 percent and 9.5 percent (which is the equivalent of 6.06 percent and 8.23 percent respectively, after tax at an effective rate of 13.4 percent).

The results of this analysis are shown in Charts I through III. It should be observed that even with the conservative assumptions that have been made, investment income is substantial. In absolute dollars (which is how losses are depicted on the annual convention statement), and without adjustment for present value, at an after tax rate of return of 6.06 percent (which is equal to a return of 7.0 percent before taxes), \$24.50 of income is generated for every \$100 of premiums written. If the after tax rate of return available on investments is assumed to be 8.23 percent (9.5 percent before taxes), the income generated increases to \$40.94. It should be noted that in both cases, these amounts are in addition to the \$5 (\$4.33 after taxes) of underwriting income which is presently provided for in the ISO manual rate structure.

CHART I

(1) <u>Year</u>	(2) % Losses <u>Paid</u> ¹	(3) Loss <u>Reserves</u> ²	(4) General <u>Expense</u>	(5) Avg Loss Reserve Available for <u>Investment</u> ³
1-1-80	-0-	57.00	10.00	--
12-31-80	6.7	53.18	--	60.09 ⁴
12-31-81	17.1	46.91	--	50.05
12-31-82	35.0	37.05	--	41.98
12-31-83	63.6	20.75	--	28.90
12-31-84	77.6	12.77	--	16.76
12-31-85	87.1	7.35	--	10.06
12-31-86	91.6	4.79	--	6.07
12-31-87	95.2	2.74	--	3.77
12-31-88	97.0	1.71	--	2.23
12-31-89	98.3	.97	--	1.34
12-31-90	98.6	.80	--	.89
12-31-91	99.0	.57	--	.69
12-31-92	100.0	-0-	--	.29

¹ Derived from Closed Claim Survey, Report 12A (untrended), at 408.

² (100% - amount in Column (2)) * \$57.00.

³
$$\frac{\text{Amount loss reserves for yr } n}{2} + \frac{\text{amount loss reserves for yr } n+1}{2}$$

⁴ Includes 5.00 average general expense available for investment during the period 1-1-80 to 12-31-80.

CHART II

(1)	(6)	(7)	(8)	(9)	(10)
<u>Year</u>	Avg Loss Reserve Available for Investment ¹	Accumulated Income from Previous Periods ²	Total Avail for Investment ³	Income at <u>8.23%</u> ⁴	NPV at <u>9.5%</u> ⁵
12-31-80	60.09	-0-	60.09	4.95	4.52
12-31-81	50.05	4.95	55.00	4.53	3.78
12-31-82	41.98	9.48	51.45	4.23	3.22
12-31-83	28.90	13.71	42.61	3.51	2.44
12-31-84	16.76	17.22	33.97	2.80	1.78
12-31-85	10.06	20.02	30.07	2.47	1.43
12-31-86	6.07	22.48	28.55	2.35	1.24
12-31-87	3.77	24.83	28.60	2.35	1.14
12-31-88	2.23	27.19	29.42	2.42	1.07
12-31-89	1.34	29.61	30.95	2.55	1.03
12-31-90	.89	32.16	33.05	2.72	1.00
12-31-91	.69	34.88	35.57	2.93	.99
12-31-92	.29	37.80	38.09	<u>3.14</u>	<u>.97</u>
				40.94	24.61

1 From Column (5)

2 From Column (9)

3 Column (6) + Column (7)

4 Column (8) * .0823

5 Amount in Column (9)

(1.095)ⁿ

CHART III

(1) Year	(6) Avg Loss Reserve Available for Investment ¹	(7) Accumulated Income from Previous Periods ²	(8) Total Avail for Investment ³	(9) Income at <u>6.06%</u> ⁴	(10) NPV at <u>7.0%</u> ⁵
12-31-80	60.09	-0-	60.09	3.64	3.40
12-31-81	50.05	3.64	53.69	3.25	2.84
12-31-82	41.98	6.90	48.88	2.96	2.42
12-31-83	28.90	9.86	38.76	2.35	1.79
12-31-84	16.76	12.21	28.97	1.76	1.25
12-31-85	10.06	13.96	24.02	1.46	.97
12-31-86	6.07	15.42	21.49	1.30	.81
12-31-87	3.77	16.72	20.49	1.24	.72
12-31-88	2.23	17.96	20.19	1.22	.66
12-31-89	1.34	19.18	20.52	1.24	.63
12-31-90	.89	20.43	21.32	1.29	.61
12-31-91	.69	21.72	22.41	1.36	.60
12-31-92	.29	23.08	3.37	<u>1.42</u>	<u>.59</u>
				24.50	17.29

1 From Column (5)

2 From Column (9)

3 Column (6) + Column (7)

4 Column (8) * .0606

5 Amount in Column (9)

(1.07)ⁿ

If the stream of investment income is discounted to reflect its present value, the results are not quite as dramatic, but nevertheless remain substantial. The after tax return at 6.06 percent is reduced to \$17.29 and the after tax return at 8.23 percent is reduced to \$24.61, both of which must be increased to include underwriting income.

Thus, considering overall profitability most conservatively--and assuming merely that an insurer is able to earn a 7 percent pretax rate of return on its investments, discounting this stream of income to reflect its present value and taking into account investment income and Federal income taxes--an insurer minimally has a projected profit of 21.62 percent of sales!

Since ISO trends loss and exposure data in its ratemaking, we have prepared a similar analysis using all the foregoing assumptions, except that the payout was determined on the basis of the trended data in the ISO Closed Claims Survey. These results are shown on Charts IV through VI. As trended data results in a slower payout period, investment income is increased by almost 25 percent. Thus, using a 9.5 percent pretax rate of return, the total investment income generated would be \$50.29 (\$29.48 when adjusted for present value); and \$30.39 using 7 percent pretax rate of return (\$21.00 present value). Of course, the after tax underwriting income of \$4.33 must be added to these figures to yield the total rate of return.

CHART IV

(1) <u>Year</u>	(2) <u>% Losses Paid</u> ¹	(3) <u>Loss Reserves</u> ²	(4) <u>General Expense</u>	(5) <u>Avg Loss Reserve Available for Investment</u>
3				
1-1-80	-0-	57.00	10.00	--
12-31-80	2.9	55.35	--	61.18
12-31-81	9.0	51.87	--	53.61
12-31-82	21.2	44.92	--	48.40
12-31-83	46.0	30.78	--	37.85
12-31-84	60.0	22.80	--	26.79
12-31-85	70.6	12.76	--	19.78
12-31-86	78.0	12.54	--	14.65
12-31-87	86.1	7.92	--	10.23
12-31-88	91.1	5.07	--	6.50
12-31-89	96.0	2.28	--	3.68
12-31-90	97.4	1.48	--	1.88
12-31-91	98.4	.91	--	1.20
12-31-92	100.0	-0-	--	.46

¹ Derived from Closed Claim Survey, Report 12A (untrended), at 224.

2 (100% - amount in Column (2)) * \$57.00.

$$\frac{\text{Amount loss reserves for yr } n}{2} + \frac{\text{amount loss reserves for yr } n+1}{2}$$

⁴ Includes 5.00 average general expense available for investment during the period 1-1-80 to 12-31-80.

CHART V

(1)	(6)	(7)	(8)	(9)	(10)
Year	Avg Loss Reserve Available for Investment ¹	Accumulated Income from Previous Periods ²	Total Avail for Investment ³	Income at <u>8.23%</u> ⁴	NPV at <u>9.5%</u> ⁵
12-31-80	61.18	-0-	61.18	5.04	4.60
12-31-81	53.61	5.04	58.65	4.83	4.03
12-31-82	48.40	9.86	58.26	4.79	3.65
12-31-83	37.85	14.66	52.51	4.32	3.00
12-31-84	26.79	18.98	45.77	3.77	2.39
12-31-85	19.78	22.74	42.52	3.50	2.03
12-31-86	14.65	26.24	40.89	3.37	1.79
12-31-87	10.23	29.61	39.84	3.28	1.59
12-31-88	6.50	32.89	39.39	3.24	1.43
12-31-89	3.68	36.13	39.81	3.28	1.32
12-31-90	1.88	39.41	41.29	3.40	1.25
12-31-91	1.20	42.80	44.00	3.62	1.22
12-31-92	.46	46.43	46.89	<u>3.85</u>	<u>1.18</u>
				50.29	29.48

1 From Column (5)

2 From Column (9)

3 Column (6) + Column (7)

4 Column (8) * .0823

5 Amount in Column (9)

(1.095)ⁿ

CHART VI

(1) <u>Year</u>	(6) Avg Loss Reserve Available for <u>Investment</u> ¹	(7) Accumulated Income from Previous <u>Periods</u> ²	(8) Total Avail for <u>Investment</u> ³	(9) Income at <u>6.06%</u> ⁴	(10) NPV at <u>7.0%</u> ⁵
12-31-80	61.18	-0-	61.18	3.71	3.46
12-31-81	53.61	3.71	57.32	3.47	3.03
12-31-82	48.40	7.18	55.58	3.37	2.75
12-31-83	37.85	10.55	48.40	2.93	2.24
12-31-84	26.79	13.48	40.27	2.44	1.74
12-31-85	19.78	15.92	35.70	2.16	1.44
12-31-86	14.65	18.09	32.74	1.98	1.23
12-31-87	10.23	20.07	30.30	1.84	1.07
12-31-88	6.50	21.91	28.41	1.72	.94
12-31-89	3.68	23.63	27.31	1.65	.84
12-31-90	1.88	25.28	27.16	1.65	.78
12-31-91	1.20	26.93	28.13	1.70	.75
12-31-92	.46	28.63	29.09	1.76	.73
				30.39	21.00

1 From Column (5)

2 From Column (9)

3 Column (6) + Column (7)

4 Column (8) * .0606

5 Amount in Column (9)

(1.07)ⁿ

The enormity of these amounts can be seen best when contrasted with the profits in other industries when expressed as a percentage of sales. To provide some idea as to the disparity of the profits obtained from writing product liability insurance, consider the following:

<u>Industry</u>	<u>Profits As a Percent of Sales</u> ⁷
International oils	5.9
Wholesalers	1.1
Media	6.7
Utilities--electric & telephone	10.9
Metals	6.0
Automotive	4.0
Chemicals	6.1
Information processing	7.9
Aerospace	4.2
All industries	5.3

Even with our most conservative assumptions, it is evident that substantial profits are available from writing product liability insurance.

D. Significance of Investment Income and Deferral in Payment of Losses.--From the foregoing exercise, two significant conclusions should be drawn: (1) Insurers potentially earn substantial amounts of investment income from the writing of product liability insurance which are not reflected in product liability rates; and (2) the product liability underwriting losses complained of may be significantly offset by these substantial amounts of investment income.

In connection with this second conclusion, it should be observed that from the present information available, it is virtually impossible to make an appropriate allocation of investment income to the product liability subline or even line 17--miscellaneous liability (which contains the bulk of product liability experience on the annual convention statement). For any given year, the investment income actually attributable to product liability insurance is the income attributable to existing reserves for losses and unearned premiums in that year plus amounts of income attributable to accumulated income earned on account of product liability insurance in prior years: The income must be compounded. Sufficient data with which to make this computation are neither available from ISO nor from the annual convention statements.

It should also be noted that as a result of the magnitude of investment income attributable to product liability insurance, it may be desirable for state regulators to require that this line be written at an underwriting loss, rather than the present 5 percent underwriting profit. Even were this subline written without any underwriting profit, our model shows that it would still be generating substantial amounts of investment income: If a regulator desired to reduce the magnitude of this investment income, an underwriting loss for the subline might be required. Thus, it is entirely conceivable that despite historic underwriting losses experienced by some companies writing this subline, an aggregate profit may well have been realized as a result of writing this business.

E. Recommendations.--We have undertaken our analysis of investment income on the basis of the payout periods shown in the Closed Claims Survey, which necessarily included experience covering many policy years. While we believe that the model that we have constructed is sufficiently valid to ascertain that there is indeed substantial investment income arising from the writing of product liability insurance, the precise measurement of this amount is concededly less than perfect.* Since it would appear important to formulate a more precise rate of product liability loss and loss adjustment expense payout, we would recommend that ISO assist in so doing.

Accordingly, we recommend that ISO collect and analyze the appropriate data to enable it to circulate projected rate of payout tables to its member and subscribing companies. These tables would enable individual companies to ascertain their anticipated yield from investment income attributable to product liability insurance members by applying their expected after tax rate of return on investments. Presumably, the investment income derived during the first one year period of a product liability policy will be subject to variability, as a

* The model does not take into account delays by producers in remitting premiums, delays by insurers in paying producer's commissions, and delays by insurers in paying general expenses. Moreover, the payout rate used in the model was determined on the basis of date of closing. This would tend to understate the rate as a result of partial payments made prior to closing, and would tend to overstate the rate in those cases where the claim was closed with payments to be made over a period of time (e.g., the life of the claimant).

result of such items as variations in the time a premium is actually received by an insurer; variations in the time the producer's commission is made available; etc. Since it would appear extremely costly to track and report such information, it is not recommended that ISO collect such detailed data. Thus, while first year investment income may not be computed as precisely as it might, we are confident that ISO can accommodate these concerns in a cost effective manner to produce a sufficiently reliable determination of these amounts. In all events, for subsequent years, the payment rate can be more exactly determined since its computation is dependent merely upon the date that the insurer makes its loss payments.

This information will facilitate competition among insurers, as it will provide a ready means for ascertaining the anticipated investment income resulting from the writing of product liability insurance.

Implicit in the recommended methodology is a recognition that income on income generated with respect to product liability reserves is part of a particular year's product liability experience. As will be more fully discussed in Chapter IX, section B, infra, the NAIC has recently required a separate product liability report in connection with the filing of the annual convention statement which includes a provision for investment income. However, that report adopts the rather simplistic approach that investment income for a particular year is equal merely to the average rate of return on investments applied to the average unearned premium reserve plus the average loss reserves. Assuming that the unearned premium reserve plus the loss reserves as computed by the NAIC are the proper amount to which to apply the average rate of return on investments (an assumption which will be subject to discussion at Chapter X, section B, infra), this approach is deficient in that it fails to take into account investment income on prior years' investment income from product liability reserves. In other words, it fails to consider the effect of compounding. Chart VII illustrates how the NAIC methodology would compute investment income, given the same assumptions made in Chart I and Chart II. Note the substantial difference between the \$40.94 amount of total investment income on Chart II with the \$18.36 amount of investment income shown in Chart VII. Note also that in the aggregate, the NAIC methodology would not distinguish between the payout period shown on Chart VII, and the payout period shown on Chart VIII: In both instances, a total of \$18.36 income would be accounted for despite substantial differences in the timing of the receipt of such amounts.

CHART VII

(1) Year	(2) Avg Loss Reserve Avail for Investment	(3) Income at 8.23%	(4) NPV at 9.5%
12-31-80	60.09	4.95	4.52
12-31-81	50.05	4.12	3.43
12-31-82	41.98	3.45	2.63
12-31-83	28.90	2.38	1.66
12-31-84	16.76	1.38	.88
12-31-85	10.06	.83	.48
12-31-86	6.07	.50	.26
12-31-87	3.77	.31	.15
12-31-88	2.23	.18	.08
12-31-89	1.34	.11	.04
12-31-90	.89	.07	.03
12-31-91	.69	.06	.02
12-31-92	.29	<u>.02</u>	<u>.01</u>
		18.36	14.19

* Assuming that a loss reserve is established July 1, 1980 (the midpoint of the policy year), the amount shown--\$60.09--would be equal to that derived from the NAIC methodology which takes into account unearned premium reserves and loss reserves) as follows:

Unearned premium reserve:		
Accrued expense 1/1/80	\$10.00	
Accrued expense 12/31/80	<u>-0-</u>	
Average for 1980		\$ 5.00
Available for investment from unearned premium 1/1/80	\$57.00	
Available for investment from unearned premium 6/30/80	<u>55.09</u>	
Average for 6 months		56.05
Average for 1980		28.02
Total available for investment from unearned premium reserves		33.02
Loss reserves:		
at 7/1/80	55.09	
at 12/31/80	<u>53.18</u>	
Average for 6 months	54.14	
Average for 1980		<u>27.07</u>
Average Unearned Premium Reserve Plus Average Loss Reserve for 1980		\$60.09

CHART VIII

(1) <u>Year</u>	(2) <u>Loss Reserves</u>	(3) <u>Income at</u> <u>8.23%</u>	(4) <u>NPV at</u> <u>9.5%</u>
1-1-80	57.00	---	---
12-31-80	15.80	3.41*	3.11
12-31-81	15.80	1.30	1.08
12-31-82	15.80	1.30	.99
12-31-83	15.80	1.30	.90
12-31-84	15.80	1.30	.83
12-31-85	15.80	1.30	.75
12-31-86	15.80	1.30	.69
12-31-87	15.80	1.30	.63
12-31-88	15.80	1.30	.57
12-31-89	15.80	1.30	.52
12-31-90	15.80	1.30	.48
12-31-91	15.80	1.30	.44
12-31-92	-0-	.65	.20
		18.36	11.19

* Computed on average loss reserves of \$36.40 plus average general expenses of \$5.00.

Note also the difference in results that the two methodologies would indicate in the event a \$40.94 loss was reported for the first time and paid at the beginning of the fourteenth year. The NAIC procedure would indicate an underwriting loss with respect to the initial policy year, even were the \$18.36 of investment income taken into account. However, the accounting methodology proposed herein would properly indicate that sufficient income has been generated by the initial product liability premium to adequately pay such loss.

The difference between the two approaches may be illustrated by comparing the following examples:

(1) Under the proposed approach, a business places \$67* in an interest bearing bank account, compounded annually at 8.23 percent, to pay product liability claims that may arise. If the business experiences product liability payouts at the rate indicated in the ISO Closed Claims Survey for bodily injury claims (untrended), it is apparent that after thirteen years, the firm would have \$40.94 remaining, an amount equal to over 70 percent of its initial provision for losses (\$57*).

(2) On the other hand, if this experience was insured, with the insurer making loss payments as in the first case, it would show no money available after thirteen years. Moreover, even if one were to collect the "investment income" from the separate product liability experience supplement to the annual convention statement for the past thirteen years, this would merely be \$18.36--55 percent less than the amount in the first example.

Note that the business in the first example would have the same results as the insurer in the second if in each year it withdrew from the bank account the annual interest. Were this done, it would earn merely the \$18.36 the insurer "earns." This "withdrawal" is precisely what the insurer does when it transfers the amount of earnings away from the product liability experience to its capital and surplus account. In part, this enables insurers to report substantial amounts of investment income and increases in their capital and surplus accounts, while at the same time reporting underwriting deficits.

* Of the \$67, \$10 will be used to pay general expenses ratably over the first year, while \$57 is the initial provision for losses.

It should also be observed that investment income might potentially be taken into account by discounting the value of future losses in the ISO ratemaking methodology. For example, since a \$100 loss payable in four years would, at 7 percent interest, require merely \$76.29 today, the ratemaking methodology could be changed so as to produce merely \$76.29 in premiums attributable to such losses, instead of \$100 as is presently the case. We reject this approach for several reasons. First, the investment results obtainable by the industry in the aggregate are not necessarily those that will in fact be obtained by individual insurers. To the extent that an individual insurer's experience is different from the norm, that insurer's rates will either be too high or too low.

Second, were this approach adopted, the assumed rate of investment income would be necessary to satisfy future losses. If a given insurer failed to obtain the targeted results, its reserves would be inadequate to provide for expected losses.

In all events, we express no opinion as to what an appropriate maximum rate of return should be for product liability insurance; however, we do observe, that at present levels, when investment income is taken into account, an insurance regulator would be in a better position to evaluate whether some product liability rates are excessive.

FOOTNOTES FOR CHAPTER VIII

1. See Closed Claims Survey, supra ch. II note 4, at 408.
2. Contractor Report, supra ch. IV note 4, at 53.
3. See id. at 53-54.
4. Id. at 55.
5. Id.
6. Closed Claims Survey, supra ch. II note 4, at 408.
7. The Forbes Yardsticks: 1979, Forbes, Jan. 7, 1980, at 218-19.

IX. REPORTING PROVISIONS

A. Generally.--At the conclusion of each year, insurers doing business in a state file with that state's insurance department an annual statement summarizing their insurance activities for the preceding year. A copy of this statement together with instructions is reproduced in Appendix C. Historically, this statement did not call for the separate reporting of product liability experience. Rather, the bulk of product liability experience was included in Line 17 entitled "Other Liability"; it was estimated that 40 percent of the premium for this line was attributable to product liability insurance. Also, to an undetermined extent, a portion of product liability experience was reported pursuant to line 5, entitled "Commercial Multiple Peril." Since the experience reported on the convention statement of all insurers embraces virtually all product liability experience in this nation (excepting those risks which are self-insured, or which have placed their insurance with non-admitted insurers outside the United States), the convention statement potentially provides the best source to ascertain precisely what is happening in the product liability area.

Presumably as a result of this, in 1979 the NAIC approved a product liability supplement to the convention statement which contains detailed product liability experience. However, several state legislators and/or insurance departments have also perceived the need for this information and have either legislatively or administratively required product liability reports in addition to that provided by the supplement to the convention statement.¹ Such provisions have been adopted as early as 1977.

This chapter will briefly review the information requested in the NAIC supplement as well as individual state reporting statutes. The subsequent chapter will analyze these in detail.

B. National Association of Insurance Commissioners.--Perhaps the most important of the various reporting requirements is the NAIC supplement to the annual convention statement. This was authorized in spring 1979 and is to be used for reporting product liability experience beginning with calendar year 1979. A copy of the supplement is included in Appendix D. The

NAIC staff indicated that it intends to compile the results of all insurers in all states. This report is to be available during the late summer or early fall of 1980.*

Essentially, there are eleven exhibits to the product liability supplement to the annual convention statement. The first of these requires the reporting of premiums and losses on a state by state basis. Information is requested concerning both direct premiums written and direct premiums earned; direct losses paid, direct losses incurred, and direct losses unpaid; and dividends.

The remaining schedules call for aggregate product liability experience. Schedule P--Part 1 summarizes underwriting results for 1979 and for years prior to 1979; Schedule P--Part 2 summarizes incurred loss maturation for years prior to 1974 and for each year from 1974 to 1979 (however, reporting for years prior to 1979 is optional); Schedule P--Part 3 provides the annual payout rate for losses and loss adjustment expenses back to 1973 (however, reporting data for years 1973-1978 is optional); Part 2 provides for premiums earned; Part 2-A provides for premiums in force; Part 2-B provides a recapitulation of all premiums; Part 2-C provides for premiums written; Part 3 provides for losses paid and incurred; Part 3-A provides for unpaid losses and loss adjustment expenses; and Part II--the Insurance Expense Exhibit--provides for allocations of various expense components, investment gain, loss, and other income, and dividends to product liability experience.

* It should be observed that the NAIC had been considering some sort of reporting requirement for product liability experience for several years. During 1977, for example, a product liability questionnaire had been prepared by one of the NAIC subcommittees; however, the questionnaire was used only in a handful of states, with no compilation ever resulting. The NAIC also considered having product liability experience reported as a separate line in the convention statement in much the same way that medical malpractice is now reported as a separate line. While much debated, this proposal was never put into effect. Thus, the supplement to the convention statement represents the first nation wide effort by the NAIC to gather detailed product liability information.

C. State Reporting Requirements (Other Than the Convention Statement Supplement).--Several states have adopted reporting requirements in addition to those required by the annual convention statement.

In many respects, the information required by most of the state reporting provisions is similar to that required by the supplement to the convention statement, and generally less detailed. This includes data with respect to premiums written, premiums earned, losses incurred, unpaid losses, and so forth. While several states require the reporting of nationwide product liability experience, the major thrust is on the experience for a particular state. In case of multi-state product liability risks, an allocation to a particular state is required, and may be made in a variety of ways. The Georgia reporting form illustrates several of the various alternatives:²

"6. a. How does your company allocate premiums received from multi-state product liability risks?

"1. All premium assigned to risk's state of domicile. ____

"2. All premium assigned to state in which application is made and policy is delivered. ____

"3. Premium is split and allocated to each state in which risk has a physical plant. ____

"4. Premium is allocated to each state on the basis of sales to each state. ____

"5. Other. Please explain.

"b. Is your company consistent in this practice? (Please explain any exceptions in detail.)

"7. a. How does your company allocate losses paid on behalf of a multi-state product liability risk?

"1. All losses assigned to risk's state of domicile. ____

"2. All losses assigned to claimant's state of domicile. ____

"3. Losses allocated to state in which product was manufactured or distributed. ____

"4. Losses allocated to state in which suit is brought. ____

"5. Other. Please explain.

"b. Is your company consistent in this practice (please explain any exception in detail)."

Other state reporting requirements neither request information on the method of allocation used, nor require that a specific format be employed (e.g., Connecticut).³

Unlike the supplement to the convention statement, several states require information with respect to closed claims. Some states require that this information be reported in the aggregate (e.g., Connecticut⁴ and Florida⁵), while others require detailed reports as to each claim (e.g., Kansas⁶ and Nebraska⁷).

Additionally, several states request information as to cancellations and nonrenewals (e.g., Minnesota⁸). At least one state requires dollar allocations of items of expenses and income attributable to product liability experience (e.g., Florida⁹), while others require that this information be reported merely as a percentage of earned or written premiums (e.g., Michigan¹⁰ and North Dakota¹¹).

One of the most unique requirements made in connection with a closed claims survey is provided by Kansas.¹² This requires the reporting, with respect to closed claims, of the amount reserved at the time of disposition, the amount of initial reserve, the year established, and subsequent additions or subtractions to the reserve.

In all events the following states have statutorily adopted special product liability reporting requirements:*

* Texas and Pennsylvania had adopted in 1978 the product liability questionnaire prepared by the NAIC D-2 subcommittee. However, its use appears to have been discontinued.

Arizona	Kansas	Nebraska
Connecticut	Louisiana	Nevada*
Florida	Michigan	New York
Georgia	Minnesota	North Carolina
Idaho	Missouri	North Dakota
Illinois*	Montana	Oregon

Maine has established a reporting requirement administratively.¹³ Each of these state requirements is reproduced in Appendix E. To the extent that we have been able to obtain them, we have also reproduced the special state reporting forms in Appendix F.

* These states, together with Texas, appear to use the NAIC supplement to the annual convention statement in lieu of the reporting required by their state statute.

FOOTNOTES FOR CHAPTER IX

1. See Appendix D.
2. See Appendix F, Exhibit 4.
3. Appendix F, Exhibit 2.
4. Appendix F, Exhibit 2.
5. Appendix F, Exhibit 3.
6. Appendix F, Exhibit 6.
7. Appendix F, Exhibit 13.
8. Appendix F, Exhibit 10.
9. Appendix F, Exhibit 3.
10. Appendix F, Exhibit 9.
11. Appendix F, Exhibit 15.
12. Appendix F, Exhibit 6.
13. Appendix E.

X. ANALYSIS OF REPORTING PROVISIONS

A. Generally.--From the foregoing section, it is apparent that the NAIC supplement to the annual convention statement, as well as the reporting requirements of individual states, are providing an abundance of product liability information. However, it is equally apparent that much of the information being requested is of marginal utility. In fact, the insurance departments of several of the states have admitted as much: In response to our inquiry as to when a compilation would be available from the reports received pursuant to the state statutes, several state representatives indicated that none would be made.

This section of the report will briefly consider the value of the information presently being collected. In connection with this section, the reader is urged to keep in mind the points raised earlier in Chapter III, on threshold considerations on the use of data, as well as in Chapter VIII, on investment income.

B. NAIC Supplement.--The NAIC supplement is subject to a number of difficulties, not the least of which is its failure to match losses and expenses with the appropriate periods giving rise thereto. These difficulties can best be illustrated with an example.

Assume an insurance company whose product liability premium business is expanding annually at a rate of 20 percent. In calendar year 1979, it wrote \$100 of product liability business, and in 1980, it wrote \$120 of such business. Assume also that premiums, losses, and expenses occur ratably over each year, and that its losses and expenses equal the ISO target for ratemaking (i.e., 25 percent of each premium dollar is attributable to production expenses, 10 percent is attributable to general expenses, 3 percent is attributable to taxes, licences and fees, and 57 percent is attributable to losses and loss adjustment expenses). In accounting for its 1980 experience, note the different possibilities from the convention statement format:

Earned Premiums 1980	\$110.00
(1/2 x 1979) + (1/2 x 1980)	

Written Premiums 1980	120.00
-----------------------	--------

Less:

Losses Incurred 1980 at 57%	62.70
(1/2 x 1979) + (1/2 x 1980)	

Production Expenses at 25%	30.00
(1980)	

General Expenses at 10%	12.00
(1980)	

Licenses, Taxes, and Fees at 3%	3.60
(1980)	

\$108.30

As a percentage of earned premium	98.50%
-----------------------------------	--------

As a percentage of written premium	90.25%
------------------------------------	--------

Note that losses and expenses, when stated as a percentage of earned premium, tend to be overstated, while expressing them as a percentage of written premium tends to understate them. Neither of these methodologies reflect what is actually happening on a policy year basis which may be expressed as follows:

Premiums for Policy Year 1980	\$120.00
-------------------------------	----------

Less:

Losses at 57%	68.40
---------------	-------

Production Expenses at 25%	30.00
----------------------------	-------

General Expenses at 10%	12.00
-------------------------	-------

Licenses, Taxes and Fees at 3%	3.60
	<u>\$114.00</u>

As a percent of premiums for Policy Year 1980	95.00%
---	--------

If expenses were required to be amortized over the duration of a policy (as in the case of earned premiums) rather than being provided for in toto at the time incurred, an accrual accounting methodology would also yield the desired results:

Earned Premiums	\$110.00
(1/2 x 1979) + (1/2 x 1980)	
Less:	
Losses	62.70
(1/2 x 1979) + (1/2 x 1980)	
Production Expenses	27.50
(1/2 x 1979) + (1/2 x 1980)	
General Expenses	11.00
(1/2 x 1979) + (1/2 x 1980)	
Licenses, Taxes and Fees	<u>3.30</u>
(1/2 x 1979) + (1/2 x 1980)	
	\$104.50
As a percentage of earned premium	95.00%

Unfortunately, the NAIC product liability supplement perpetuates the inaccuracy. While the supplement calls for the reporting of net premiums written and net premiums earned, it does not require the reporting of expenses on an accrual basis. In fairness to the NAIC, however, the supplement calls for the reporting of the various expense components both as a ratio to earned premiums as well as a ratio to written premiums. Thus, the actual results will fall somewhere between the two reported percentages, with neither of the percentages being correct (unless, of course, the amount of an insurer's writings from one reporting period to the next do not change.)

Most significantly, the NAIC report calls for computation of net investment gain and other income attributable to product liability insurance. While at first blush this is most laudable, as will become evident below, the manner in which this is done may well cause more problems than are ameliorated.

The instructions used in determining investment income have been reproduced at page 3 of Appendix D. As the reader can observe, they are a bit confusing. Nevertheless, in narrative fashion they apparently provide as follows: Investment income is allocated to the product liability experience by first

finding the average rate of return on investments (which is essentially the adjusted total investment income--reduced by the total investment expenses, divided by the adjusted total assets). This rate of return is then applied to the sum of the adjusted unearned product liability premiums (which are the average unearned premiums less the sum of commissions and unremitted premiums) plus the adjusted loss reserves (which are the average unpaid losses and expenses). In addition, other income is allocated to the product liability experience on the basis of the portion of product liability earned income to total earned income.

The methodology requires that all realized capital gains are attributable to the capital and surplus accounts, with no portion thereto being attributable to the product liability experience. Further, in computing the rate of return on investments, common and preferred stocks of non-affiliated and affiliated companies are excluded from the computation: Thus, investment income does not include dividends therefrom, nor does the asset base include these stock values. It is unclear as to why stocks are excluded from the rate of return computations.

Moreover, assuming arguendo the validity of excluding stocks from the computation of rate of return, it would appear appropriate to exclude the investment expenses attributable to such stocks. However, the methodology required by the NAIC reduces adjusted investment income by total investment expenses, rather than by investment expenses attributable to assets other than stocks.

Moreover, the failure to take capital gains and losses from investments into account appears to be a significant omission. Since stock is excluded from the computations, capital gains and losses can arise merely from the purchase and sale of bonds, other loans, real estate, and other invested assets.

In the case of bonds, it should be noted that bonds purchased at par will generally not give rise to capital gains or losses when held to maturity; however, bonds purchased at either a discount or premium from par often give rise to capital gains and losses which are nevertheless highly predictable. For example, consider an AT&T bond maturing in 1990, \$1000.00 par, yielding \$37.875 interest annually, which could be purchased in June 1980 for \$670.00. If this bond is held to maturity, capital gains of \$330.00 will result. It seems unfair to exclude such non-extraordinary gains to the extent realized from the computation.

Similarly, it appears inappropriate to exclude capital gains and losses from the sale of real estate from the computation base, since depreciation on such assets is required to be taken into account. Real estate has been notorious for appreciating despite the fact that investors (including insurers) are permitted to offset rental income with an allowance for depreciation on such property. Thus, the annual yields obtained from holding real estate may be quite low or even negative when taking into account provision for a depreciation allowance, while the appreciation on such real estate may be quite spectacular. Thus, since allowances for depreciation on real estate are taken into account in reducing the rate of return on investments, it would appear appropriate to require that capital gains and losses on such investments, to the extent realized, also to be taken into account in the rate of return computations.

There are also problems with the investment income schedule. As has been explained in greater detail in Chapter VIII on investment income, it is our belief that the proper manner of measuring investment income attributable to the product liability experience takes into account the compounding effect. However, the methodology used by the NAIC in effect calls for the annual transferring of investment income attributable to the product liability experience to the capital and surplus accounts. Thus, as was demonstrated in Chapter VIII,* given the rate of payout shown in the ISO Closed Claims

* Note that the NAIC refines the model used in Chapter VIII: It computes investment income on the basis of unearned premiums (less provision for commissions and unremitted premiums) plus loss reserves. In our model, we assumed that there would be no unremitted premium (by hypothesizing that the premium was remitted to the insurer on the day of writing). However, the NAIC model assumes that commissions are paid to producers on the date of writing, which would appear to be an unwarranted assumption tending to understate investment income. It should also be noted that by providing for income on unearned premiums, the NAIC is taking into account investment income attributable to the average general expense. It should be observed further that in comparing the NAIC methodology with that used by the Task Force in Chapter VIII, the principal differences (apart from compounding) will occur during the first policy year. Thereafter, investment income will be attributable merely to reserves for losses and loss adjustment expenses. See also the footnote accompanying Chart VII in Chapter VIII.

Survey, the method used by the NAIC would tend to understate investment income attributable to product liability experience by 55 percent.

Thus, it is submitted that if one is seeking to ascertain the profitability of writing product liability insurance, this can not be fully gleaned from the NAIC supplement.

In any event, it should also be observed that the NAIC supplement requires the reporting of changes in incurred losses from prior reports, as well as the rate at which loss and loss expenses are paid. The latter schedule--showing the rate of payment--is similar to the information that we have recommended ISO collect in connection with investment income so that the rate of payment may be ascertained. The principal difference between the amounts shown on this schedule, and that recommended, is that the former is on a calendar year basis while the latter would be on a policy year basis--the accounting methodology presently used for ratemaking.

The schedule showing incurred losses is not as valuable a tool for regulators as it might otherwise be. While incurred losses include paid losses, case reserves, and incurred but not reported losses, this schedule does not provide any such differentiation. Thus, if changes with respect to a calendar year are reported in subsequent periods, it would be unclear to one examining the schedule whether such changes arise from variations in the initial case reserves, or from the changes in incurred but not reported losses.*

Additionally, the product liability supplement requires that product liability premiums written, premiums earned, dividends, losses paid, losses incurred, and losses unpaid be reported on a state-by-state basis. This schedule is unlikely to provide any significantly useful information as a result of its failure to address the problem of multi-state risks: The schedule does not require the use of a specific allocation methodology. Thus, the allocations made will be arbitrary and dissimilar among reporting insurers. Assume, for example, that premiums will be allocated to a firm's principal place of business; the question then emerges how best to allocate losses. If losses are allocated on the basis of where they occur, then, in the case of a multi-state company, there will not be an accurate

* The rate of paid losses can be ascertained from the paid loss schedule.

matching of premiums and losses. Similarly, if losses are attributable to the same state as are premiums (i.e., to the insured's principal place of business) then the loss experience attributable to a specific state will be overstated as it will include claims arising outside of the state's borders.

In all events, it would appear that the most appropriate allocation for a multi-state business would allocate premiums on the basis of exposures generated by activities within a state, and include losses attributable to such exposures (regardless of where they may occur). This would equate a multi-state enterprise with a business situated in merely one state.

One final observation is in order concerning the NAIC supplement. It calls for the inclusion of "all indivisible premium policies for which at least 1/2 of the premium is for product liability coverage."¹ Apart from the obvious internal inconsistency in the instruction--if the premium is indivisible, how can one possibly determine whether product liability coverage accounts for 1/2--it remains unclear as to how this will affect the reported results.*

If such premiums are included in total, will all losses attributable to such policies also be so included? If only product liability losses are included, then the results would show an otherwise increased profitability, whereas if all losses are included the overall results would in part reflect the experience of other than product liability insurance to an undetermined extent. Thus, the effect of this instruction is to potentially distort the product liability results.

In any event, while all the foregoing information may be of general interest, it remains questionable whether it is useful as a practical matter. Because the reports are not on a policy year basis, and as a result of the aforementioned limitations, it does not appear that a regulator can determine with any greater accuracy than at present whether product liability premiums are excessive, inadequate, or unfairly discriminatory, either in the aggregate, or with respect to specific rates. Similarly, solvency determinations should be made on the basis of all lines written by an insurer; Line 17 at present

* Note that this instruction presumably pertains solely to loss rated and large (a)-rated policies; all other types of rating have identifiable product liability premiums.

provides sufficient information to make this determination. In so far as profitability is concerned, certainly the supplement provides additional information from which approximations can be made. However, as a result of all the limitations, the supplement will not provide information to assess the profitability of a particular insurer with any certainty.

C. State Reporting Requirements.--From the foregoing discussion, it becomes apparent that the state reporting statutes which require nationwide experience are needlessly duplicative of the NAIC supplement to the convention statement. Moreover, the data collected pursuant to such requirements are subject to the same limitations as the nationwide data collected via the supplement, and are subject to the same criticism that the utility of the data being collected would appear marginal from the vantage point of the state regulator. The limitations include the same difficulties arising out of the accounting methodology used and, for those states which request it, many of the same difficulties previously noted with respect to the computation of investment income.*

Moreover, since product liability experience is generally required to be furnished on a state basis, the reported experience is subject to the same criticism recited in connection with the NAIC supplement state breakout in the case of multi-state activity. As is evidenced by the Georgia reporting requirement,² there are numerous ways this allocation can be accomplished. Thus, to the extent that it appears that no state requires the use of a specific allocation methodology, a comparison of different reports received by a state would be the equivalent of comparing apples and oranges. Moreover, it appears that many of the ways the allocation could be accomplished are subject to various limitations and potential inaccuracies.

In all events, as in the case of the NAIC supplement, it would appear that the most appropriate allocation for a multi-state business would allocate premiums on the basis of exposures generated by activities within a state, and include losses attributable to such exposures (regardless of where they may occur). This would equate a multi-state enterprise with a business situated in only one state.

* For those states which do not inquire at all about investment income, the reporting exercise becomes even less meaningful.

With respect to those states which require some form of closed claim reporting, it is generally unclear what positive benefit is to be derived therefrom. None of these closed claim surveys provide anything resembling the detail obtained in the ISO Closed Claim Survey with respect to operations of the tort litigation system. Closed claim data on an aggregate national basis appears to be of questionable utility, as it includes amounts attributable to policies in force over a wide range of years. Since none of the states requesting this data have requested detailed information from which to ascertain the time lag between the occurrence date and the date of closing, it would appear that no valid inferences can be drawn from the data being collected.

However, with respect to those states requiring detailed information with respect to claims adjudicated within their borders, the collection of this information may be more valid. In those cases where detailed information of this sort is requested, this would appear useful in ascertaining how a state's tort litigation system is in fact functioning. This is certainly an appropriate inquiry by any state. However, the tempting inference from this sort of data--that were changes in the tort litigation system made, this would affect product liability rates in that state--must be resisted since generally product liability rates are set on a national basis. (In the event that this is the purpose of a state's closed claim survey, information should be collected with respect to all claims closed in that state, regardless of where the policy giving rise to the claim was written.

Perhaps the most salient question contained in any states' reporting scheme is that of Kansas in connection with reserves provided before a claim was closed.³ Essentially, this question will provide a means for validating case reserves for known claims. For ratemaking purposes, this review is undertaken via the loss development procedure. As we have observed therein, at least in the case of manually rated rates, there do not appear to have been significant changes in the reserving practices over the past four reported years. However, this experience accounts for merely approximately 10 percent of all product liability premiums written. As these case reserves are a component of incurred losses for all state reports, and for the reports on the NAIC supplement to the convention statement, their validity is extremely important. In this connection, the results from the Kansas survey for 1977 are available.⁴ They indicate awards to plaintiffs of \$1.032 million. However, these claims had been initially been reserved at \$2.443 million, and had been subsequently adjusted

immediately prior to the time of disposition to \$2.894 million. Expressed differently, the losses that were actually paid were a mere 42 percent of the initial reserves, and 35 percent of the ultimate reserves.

Of course, the Kansas experience is small relative to the total nationwide product liability experience. However, these figures indicate that further study is warranted in this area. It would appear that questions similar to those asked by Kansas could be added to the NAIC supplement, or that ISO could routinely collect this information in connection with the reports on losses furnished pursuant to their commercial statistical plan.

FOOTNOTES FOR CHAPTER X

1. Appendix D.
2. Appendix F, Exhibit 4.
3. Appendix F, Exhibit 6.
4. See Bell, Review of Products Liability Statistics and Closed Claims Reported in Accordance with K. S. A. 40-1130, at 4 (Feb. 14, 1979).

APPENDIX A

ACTUARIAL ANALYSIS OF (A)-RATES

(1) ICC	(2) Exposure Units 1975	(3) Exposure Units 1976	(4) Trended Exposure Units 1975	(5) Trended Exposure Units 1976	(6) Rate	(7) Projected Premium Based on 1975 Exposures	(8) Projected Premium Based on 1976 Exposures	(9) Losses 1975	(10) Losses 1976	(11) Trended and Developed Losses 1975	(12) Trended and Developed Losses 1976
07290	11289	27740	15793	36450	2.00	31587	72901	0	11288	0	37514
13812	53635	67651	75035	88893	7.50	562765	666701	32218	0	87674	0
13912	50920	209421	71237	275179	.25	17809	68795	226	0	615	0
15164	6653207	9916206	9307837	13029895	.15	1396176	1954484	217887	342330	592928	1137681
16231	1138	13809	1592	18145	1.00	1592	18145	26	0	71	0
16232	75936	60139	106234	79023	1.00	106234	79023	0	1635	0	5434
16235	6539	41416	9148	12020	5.00	45740	60102	0	0	0	0
16265	33704	143965	47152	189170	1.50	70728	283755	6207	4113	16891	13669
16292	641800	188718	897878	247975	.40	359151	99190	44043	22508	119853	74802
16294	20599	82473	28818	108370	.50	14409	54185	491	2545	1336	8458
17114	37547	60640	52528	79681	.40	21011	31872	0	1443	0	4796
17145	26696	101301	37348	133110	1.25	46685	166387	0	27250	0	90561
19110	22833	883	32013	1160	2.00	64027	2321	109	0	297	0
19202	1023	10860	1431	14270	2.50	3578	35675	0	0	0	0
19510	2143	1163	2998	1528	4.00	11992	6113	218	9810	593	32602
19612	153	2591	214	3405	3.00	642	10214	27	3947	73	13117
20402	35420	93203	49553	122469	.05	2478	6123	0	756	0	2512

ACTUARIAL ANALYSIS OF (A) - RATES

(1) ICC	(2) Exposure Units 1975	(3) Exposure Units 1976	(4) Trended Exposure Units 1975	(5) Trended Exposure Units 1976	(6) Rate	(7) Projected Premium Based on Exposures 1975	(8) Projected Premium Based on Exposures 1976	(9) Losses 1975	(10) Losses 1976	(11) Trended and Developed Losses 1975	(12) Trended and Developed Losses 1976
20403	2991760	4884825	4185472	6418660	.10	418547	641866	14221	20491	38672	68097
22802	648774	2131305	907635	2800535	.25	226909	700137	20907	18848	56893	62638
23900	40	490	56	644	3.00	168	1932	0	0	0	0
24992	196650	681365	275113	895314	.175*	48145	156679	3652	169	9938	562.
25104	10943	29502	15309	38766	7.50	114819	290742	68307	98923	185881	328755
25220	-	11048	-	14517	1.00	-	14517	-	1684	-	5597
26500	280689	505880	392684	664726	.25	98171	166182	0	10306	0	34250
28102	1230	1492	1230	1492	2.75	3383	4103	2390	0	6504	0
28105	81274	598809	113702	786835	1.25	142128	983544	5450	70908	14831	49289
28107	46247	188543	46247	188543	.60	27748	113126	0	0	0	0
28108	0	4192	0	4182	10.00	0	41820	0	0	0	0
28301	460400	526415	644100	691709	1.00	644100	691709	1245469	46091	3339250	153176
28302	1810396	1256118	2532744	1650539	7.50	18995580	12379043	4319716	2460437	11755088	8176883
28303	-	455489	-	598513	.50	-	299256	-	22936	-	76224
28402	92204	106146	128993	139476	1.25	161242	174345	30174	20511	82111	68165
28702	84764	172962	118584	227272	2.50	296462	568180	54500	30749	148309	102190
28703	13034	35719	18235	46935	2.50	45586	117337	0	32778	0	108933
28901	8538	75882	11945	99709	.35	4181	34898	0	29285	0	97324
28905	2751728	1567132	3849667	2059211	.625*	2406042	1287007	557837	256850	1518022	853601
28906	12239	17280	17122	22706	4.50	77051	102177	4413	3638	12009	12090
30693	947331	917959	1325316	1206198	.80	1060253	964959	178957	103809	486989	344993

ACTUARIAL ANALYSIS OF (A) - RATES

(1) ICC	(2) Exposure Units 1975	(3) Exposure Units 1976	(4) Trended Exposure Units 1975	(5) Trended Exposure Units 1976	(6) Rate	(7) Projected Premium Based on Exposures 1975	(8) Projected Premium Based on Exposures 1976	(9) Losses 1975	(10) Losses 1976	(11) Trended and Developed Losses 1975	(12) Trended and Developed Losses 1976
30792	491715	2390969	687909	3141733	.525*	361152	1649410	174826	53864	475747	179009
32707	47730	561116	66774	73736	.20	13355	14747	0	0	0	0
32902	164100	217507	229576	285804	3.00	688728	857413	22577	100888	61438	335286
32908	57303	43458	80167	57104	.20*	16033	11421	0	48	0	160
33101	338353	772310	473356	1014815	.75	355017	761112	40141	92868	109234	308632
33300	194471	651620	272065	856229	.05*	13603	42811	8175	0	22246	0
33503	319699	399533	447259	524986	.50	223629	262493	37693	34201	102573	113662
34112	1919	769	1919	769	75.00	143925	57675	556	0	1513	0
34202	30443	63378	42590	83279	3.50	149064	291475	29975	42666	81570	141794
34203	472876	594779	661554	781540	1.50	992330	1172309	145418	90031	395721	299204
34402	54428	285234	76145	324797	1.50	114217	562196	3270	8490	8899	28215
34403	39118	107834	54726	141694	3.00*	164178	425082	100025	76185	272194	253189
34610	154436	475843	216056	625258	.35	75620	218840	145840	8427	396869	28006
34703	195008	556405	272816	731116	.525*	143229	383836	0	0	0	0
34811	16827	90630	23541	119088	5.00	117705	595439	0	40689	0	135224
34901	122700	124703	171657	163860	1.00	171657	163860	33538	2300	91266	7644
34904	9109787	16639161	12744592	863858	2.50*	31861480	54659645	2324662	1468758	6326019	4831191
34905	305934	576790	428002	757902	2.50	1070004	1894755	30139	98694	82016	327994
35100	146158	301066	204475	395601	1.00	204475	395601	0	11064	0	36770
35220	290321	332590	406159	437023	5.00	2030795	2185116	242531	204231	659991	678730
35302	339982	1093924	475635	1437416	7.50	3567261	10780621	28340	110308	77121	366592

ACTUARIAL ANALYSIS OF (A) -RATES

(1) ICC	(2) Exposure Units 1975	(3) Exposure Units 1976	(4) Trended Exposure Units 1975	(5) Trended Exposure Units 1976	(6) Rate	(7) Projected Premium Based on Exposures 1975	(8) Projected Premium Based on Exposures 1976	(9) Losses 1975	(10) Losses 1976	(11) Trended and Developed Losses 1975	(12) Trended and Developed Losses 1976
35402	69238	354331	96864	465591	7.50	726480	3491932	5450	122446	14831	406930
35500	132169	491615	184904	645982	3.875*	716503	2503180	104349	249067	283961	827736
35603	25875	76374	36199	100355	.75	27149	75267	12741	41420	34672	137653
35700	8802	101733	12314	133677	.50	6157	66839	0	27055	0	89913
35701	66134	89430	92521	117511	.25	23130	29378	0	0	0	0
35806	40746	128213	57003	168472	7.50	427527	1263539	134509	40211	366034	133635
35807	65854	231205	92130	303803	1.25	115162	379754	43186	16678	117521	55427
35992	6952622	4239578	9726718	5570806	3.75 *	36475192	20890523	4745388	3782168	12913453	12569453
36101	40571	101889	56759	133882	1.65 *	93652	220905	0	0	0	0
36102	61441	97911	85914	128655	.50	42956	64327	17059	601	46422	1997
36202	202320	685309	283045	900496	.60 *	169827	540298	29977	94900	81575	315385
36403	41362	118872	57865	156198	1.00	57865	156198	0	8051	0	26756
36701	65657	14485	91854	19033	1.00	91854	19033	0	0	0	0
36702	205729	133930	287815	175984	1.00	287815	175984	35686	32798	97111	108999
36703	305706	594082	427682	780624	.20	85537	156125	0	0	0	0
36906	2569	79394	3594	104323	3.50	12579	365133	11978	117492	32595	390467
37102	537255	377455	751620	495976	2.50	1879049	1239940	158030	120393	430041	400108
37103	24090	50051	33702	65767	4.50	151659	295952	0	0	0	0
37106	351301	380531	491470	500018	5.00	2457350	2500088	265866	9824	715327	32648
37111	4700	15444	6575	20293	10.00	65753	202934	13169	119347	35836	396631
37112	0	776	0	1020	3.00	0	3060	0	0	0	0

ACTUARIAL ANALYSIS OF (A) - RATES

(1) ICC	(2) Exposure Units 1975	(3) Exposure Units 1976	(4) Trended Exposure Units 1975	(5) Trended Exposure Units 1976	(6) Rate	(7) Projected Premium Based on Exposures 1975	(8) Projected Premium Based on Exposures 1976	(9) Losses 1975	(10) Losses 1976	(11) Trended and Developed Losses 1975	(12) Trended and Developed Losses 1976
37113	9086	28295	12711	37180	5.00	63557	185898	0	0	0	0
37114	7120	35409	9961	46527	4.00	39843	186110	0	3607	0	11987
37115	108872	553333	152312	727080	5.00	761560	3635398	23623	32928	64284	109431
37322	30353	92009	42464	120899	2.00	84928	241800	3461	9265	9418	30791
37324	120238	429452	168213	564300	2.50	420532	1410750	78551	118173	213758	392746
37420	26820	146382	37521	192346	2.50	93803	480865	33247	0	90474	0
37990	149764	546351	209520	717905	5.00	1047599	3589526	64362	65692	175146	218318
38110	1563173	3348030	2186879	4399311	.25	546720	1099828	67714	35468	184268	117872
38200	8229	49809	11512	65449	2.50	28781	163623	0	0	0	0
38401	93796	187182	131220	245957	3.00	393662	737871	133478	12405	363229	41226
38402	266009	199464	372147	262096	3.00	1116440	786287	112068	101071	304967	335894
38403	47315	64227	66194	84394	2.00	132387	168789	114080	50484	310442	166776
38404	13521	35405	18916	46522	10.00	189159	465222	26622	7744	72445	25736
39413	42072	199864	58859	262621	2.50	147147	656553	73330	19789	199550	65766
39493	95	3381	133	4443	7.50	997	33320	0	0	0	0
39496	27875	123959	38997	162882	1.375*	55621	223963	0	36586	0	121588
39931	37560	52674	52546	69045	.50	26273	34522	16787	29972	45682	99607
39932	54030	62573	75587	82221	.75	56691	61666	0	0	0	0
39981	2778	9216	3886	12110	2.50	9716	30275	0	320	0	1063
39991	214261	944010	299751	1240429	4.00	1199005	4961717	0	40910	0	135958
39993	242207	659864	338848	867061	.25	84712	216765	12971	85679	35297	284741

ACTUARIAL ANALYSIS OF (A)-RATES

(1) ICC	(2) Exposure Units 1975	(3) Exposure Units 1976	(4) Trended Exposure Units 1975	(5) Trended Exposure Units 1976	(6) Rate	(7) Projected Premium Based on Exposures 1975	(8) Projected Premium Based on Exposures 1976	(9) Losses 1975	(10) Losses 1976	(11) Trended and Developed Losses 1975	(12) Trended and Developed Losses 1976
39996	89435	73141	125119	96107	1.00	125119	96107	235932	39917	642033	132658
44595	51809	116581	72480	153187	2.25	163082	344672	20042	26573	54540	88311
47830	40018	205799	55985	270420	3.00*	167955	811260	35425	73747	96400	245086
50971	70057	289990	98010	381046	.10	9801	38105	0	3053	0	10146
50972	6524	65927	9127	86628	.10	923	8663	0	0	0	0
50973	10237	51475	14322	67638	.10	1432	6764	10684	0	29073	0
50991	1867674	6557190	2612876	8616148	.40*	1045150	3446459	139279	274509	379015	912288
55962	72275	177871	101112	233722	1.25	126391	292153	0	20626	0	68547
59991	12301220	7306562	17209407	9600822	.50	8604704	4800411	833209	377134	2267382	1253347
59993	2140690	5935269	2994825	7798943	.50*	1497413	3899471	223505	358290	608216	1190722
73125	48732	238631	68176	313561	.55*	37497	172459	3606	5498	9813	18272
73908	14	491	14	491	75.00	1050	36825	1473	5090	4008	16916
73912	5540	35725	7750	46942	5.00	38752	234713	0	20280	0	67397
73913	27810	122526	38906	160999	.20	7781	32200	0	219	0	728
76992	5890	14315	8240	18810	5.00	41201	94050	0	0	0	0
SUBTOTAL											
							57012484	77736442	26025465	19774629	
With a single rate per ICC.											
With a multiple rate for ICC's (*)							75272672	91324409	22996599	22368242	
TOTAL							132285156	169060851	49018064	42142871	

LOSSES: NO EXPOSURES

ICC	Losses 1975	Trended and Developed Losses 1976
25220	1090	2966
28303	33781	91927
		<u>94893</u>

LOSSES, NO RATE, (A)-RATE, DISCONTINUED OPERATIONS, PERCENT OF OTHERS' RATE

(1) ICC	(2) Exposure Units 1975	(3) Exposure Units 1976	(4) Trended Exposure Units 1975	(5) Trended Exposure Units 1976	(6) Rate	(7) Projected Premium Based on 1975 Exposures	(8) Projected Premium Based on 1976 Exposures	(9) Losses 1975	(10) Losses 1976	(11) Trended and Developed Losses 1975	(12) Trended and Developed Losses 1976
01391	29029	30405	40612	39952	-	-	-	0	209	0	695
07230	17555	29637	24560	38943	-	-	-	0	0	0	0
37201	3569	751	-	-	-	-	-	0	3677	0	12220
37202	3783	1580	-	-	-	-	-	0	0	0	0
37203	0	1139	-	-	-	-	-	0	0	0	0
39982	848380	• 5628032	-	-	-	-	-	871747	406906	2372254	1352289
39990	18511	75189	-	-	-	-	-	16245	8355	44207	27767
39999	4429	0	-	-	-	-	-	0	0	0	0
52411	210706	817367	-	-	-	-	-	63219	49403	172036	164183
73911	1386028	6234058	-	-	-	-	-	210319	153475	573694	510051
89981	351576	795931	-	-	-	-	-	11946	49	32508	163
89982	108155	320422	-	-	-	-	-	46969	236	12779	784
93162	4509	26771	-	-	-	-	-	609	0	1657	0
TOTAL									3209135	2068152	

LOSSES: DUMP CODES AND DISCONTINUED CODES

ICC	Total Exposures 1975	Total Exposures 1976	Losses 1975	Losses 1976	Trended and Developed Losses 1975	Trended and Developed Losses 1976
34902	63759943	21664366	137	-	373	-
34906	58969	-	-	-	-	-
35991	41829683	2152808	258	4851	702	16122
35993	101823859	69624933	77180	71	210027	236
36903	190000	-	450	-	1224	-
37323	570049	417700	-	-	-	-
37913	802465108	126716011	350715	29457	954388	97396
38932	-	-	28056	273	76348	907
39411	234798942	255034419	39891	40058	108554	133127
39525	-	-	7832	3006	21313	9990
39998	-	-	6540	10845	17797	36042
42250	-	-	42356	30292	115262	100671
44634	37614179	2338914	28994	411	78900	1366
59901	215109389	102872110	50815	35347	138281	117470
59998	1098549520	605390516	146603	72540	398945	241076
73904	-	-	8004	93	21781	309
89980	-	-	455557	86680	1239691	288068
93162	4509498	26771179	609	-	1657	-
TOTAL LOSSES					16988257	15949269

LOSSES: DUMP CODES AND DISCONTINUED CODES

ICC	Total Exposures 1975	Total Exposures 1976	Losses 1975	Losses 1976	Trended and Developed Losses 1975	Trended and Developed Losses 1976
11111	-	-	3685016	3668048	10027901	12190193
13111	712130	-	-	-	-	-
13121	400000	502640	-	-	-	-
13811	-	-	133542	42705	363403	141923
15123	270315145	568077743	19678	15113	53549	50226
15194	10624498388	3314433384	243107	29757	661558	98893
16135	14211129742	257797225	68871	15736	187416	52296
16281	-	-	74788	17267	203518	57384
17451	-	-	-	-	-	-
17955	308732289	128919388	18855	4163	51309	13835
20203	165964506	37245313	-	2398	-	7969
22904	-	-	2108	4230	5736	14058
23802	184608036	124149142	51135	2732	139151	9079
28404	43638580	9809674	397758	519753	1082405	1727319
30691	-	-	153	-	416	-
31325	-	-	222783	30923	606251	102768
33200	-	-	22029	1090	59946	3622
33902	20660223	1911839	37408	1914	101797	6361
34611	70342285	22756769	21554	129407	58654	430064

ICC 37101

(1) ICC	(2) Exposure Units 1975	(3) Exposure Units 1976	(4) Trended Exposure Units 1975	(5) Trended Exposure Units 1976	(6) Rate	(7) Projected Premium Based on 1975 Exposures	(8) Projected Premium Based on 1976 Exposures	(9) Losses 1975	(10) Losses 1976	(11) Trended and Developed Losses 1975	(12) Trended and Developed Losses 1976
37101	588440	583475	-	-	(a)	-	-	27557273	33070827	74990615	109905801

APPENDIX B

Chart 1

BI TREND FACTOR¹

(1) Number of Most Recent Years Used	(2) Average Claim Cost <u>12/31/75²</u>	(3) Average Claim Cost <u>12/31/76²</u>	(4) Trend Factor <u>(Column 3/Column 2)</u>
6 (same as ISO)	2835	3246	1.145
5	2841	3279	1.154
4	2841	3235	1.139
3	2906	3091	1.066

PD TREND FACTOR¹

(5) Number of Most Recent Years Used	(6) Average Claim Cost <u>12/31/75²</u>	(7) Average Claim Cost <u>12/31/76²</u>	(8) Trend Factor <u>(Column 7/Column 6)</u>
6 (same as ISO)	1270	1384	1.090
5	1268	1374	1.084
4	1268	1342	1.058
3	1288	1301	1.010

¹ An exponential regression is undertaken using the number of years' average loss data indicated.

² As determined from the exponential curve of best fit.

Chart 2

FACTOR USED TO ADJUST PRIOR YEARS
FULLY DEVELOPED LOSSES TO 9-1-80

To project losses for policy year ending 12/31/75, they must be trended from average date of occurrence (1/1/75) to one year beyond effective date (9/1/80); however, due to anti-inflation policy, there is a reduction of .005 for losses after 10/1/78. Therefore, the expression:

$$(t)^{3.75} * (t - .005)^{1.917}$$

(Where t is the trend factor), will yield the indicated factor.

To project losses for policy year ending 12/31/76, a similar procedure is indicated, except the appropriate expression will be

$$(t)^{2.75} * (t - .005)^{1.917}$$

These expressions yield the following factors for the varying trend factors (computed on Chart 1)

BI

(1) <u>No. of Years Used</u>	(2) <u>Trend (Column 4 Chart 1)</u>	(3) <u>Factor for 12/31/75 Losses</u>	(4) <u>Factor for 12/31/76 Losses</u>
6 (ISO)	1.145	2.136	1.866
5	1.154	2.233	1.935
4	1.139	2.073	1.820
3	1.066	1.424	1.335

PD

(5) <u>No. of Years Used</u>	(6) <u>Trend (Column 8 Chart 1)</u>	(7) <u>Factor for 12/31/75 Losses</u>	(8) <u>Factor for 12/31/76 Losses</u>
6 (ISO)	1.090	1.615	1.482
5	1.084	1.566	1.444
4	1.058	1.364	1.289
3	1.010	1.048	1.038

Chart 3

PROJECTED LOSSES

BI

(1) No. of Yrs Used in Computing Trend Factor	(2) Factor to Adjust 12/31/75 <u>Losses</u> ¹	(3) Factor to Adjust 12/31/76 <u>Losses</u> ²	(4) Incurred Losses From Policy Yr Ending <u>12/31/75</u> ³	(5) Incurred Losses From Policy Yr Ending <u>12/31/76</u> ⁴
6 (ISO)	2.136	1.866	47,981,760	54,182,736
5	2.233	1.935	50,160,707	56,186,278
4	2.073	1.820	46,566,568	52,847,042
3	1.424	1.335	31,987,840	38,764,176

PD

(6) No. of Yrs Used in Computing Trend Factor	(7) Factor to Adjust 12/31/75 <u>Losses</u> ⁵	(8) Factor to Adjust 12/31/76 <u>Losses</u> ⁶	(9) Incurred Losses From Policy Yr Ending <u>12/31/75</u> ⁷	(10) Incurred Losses From Policy Yr Ending <u>12/31/76</u> ⁸
6 (ISO)	1.615	1.482	19,074,608	21,095,520
5	1.566	1.444	18,495,874	20,554,609
4	1.364	1.289	16,110,072	18,348,263
3	1.048	1.038	12,377,826	14,775,405

¹ From Chart 2, Column 3

² From Chart 2, Column 4

³ By dividing 47,981,760 by 2.136 (the factor used by ISO to trend losses for policy year ending 12/31/75), we obtain 22,463,371 which represents the untrended, fully developed incurred losses for that year. This amount is successively multiplied by the factors in Column 2 to obtain projected losses for that year, given the varying trend estimates.

⁴ The procedure described in footnote 3 is repeated, first dividing 54,182,736 by 1.866 to obtain 29,036,836, the untrended, fully developed losses for policy year ending 12/31/76. This amount is successively multiplied by the factors in Column 3.

Chart 3 footnotes continued

- 5 From Chart 2, Column 7
- 6 From Chart 2, Column 8
- 7 The procedure described in footnote 3 is repeated, first dividing 19,074,608 by 1.615 to obtain 11,810,903, the untrended, fully developed PD losses for policy year ending 12/31/75. This amount is successively multiplied by the factors in Column 7.
- 8 The procedure described in footnote 3 is repeated, first dividing 21,095,520 by 1.482 to obtain 14,234,494, the untrended, fully developed PD losses for policy year ending 12/31/76. This amount is successively multiplied by the factors in Column 8.

Chart 4

EXPOSURE OFFSET FACTORS¹

<u>Number of Quarters of Data Used</u>	<u>Exposure Offset Factor</u>
12 (ISO)	1.058
11	1.062
10	1.063
9	1.066
8	1.068
7	1.068
6	1.069
5	1.079
4	1.093
3	1.105

¹ An exponential regression is undertaken using the number of quarters of CPIC data indicated.

Chart 5

INTERMEDIATE COMPUTATION FOR EXPOSURE TREND FACTOR

<u>Number of Quarters of Data Used</u>	<u>Exposure Offset Factor</u>	<u>(Exposure Offset Factor) 2.042</u>
12	1.058	1.122
11	1.062	1.131
10	1.063	1.133
9	1.066	1.139
8	1.068	1.144
7	1.068	1.144
6	1.069	1.146
5	1.079	1.168
4	1.093	1.199
3	1.105	1.226

Chart 6

EXPOSURE TREND FACTORS

<u>Number of Quarters of Data Used</u>	<u>Trend Adjust- ment¹</u>	<u>Exposure Trend Factor for Policy Yr Ending 12/31/75¹</u>	<u>Exposure Trend Factor for Policy Yr Ending 12/31/76²</u>
12	1.122	1.399	1.314
11	1.131	1.410	1.324
10	1.133	1.412	1.327
9	1.139	1.420	1.334
8	1.144	1.427	1.340
7	1.144	1.427	1.340
6	1.146	1.429	1.342
5	1.168	1.456	1.368
4	1.199	1.495	1.404
3	1.226	1.529	1.436

1 From Chart 5.

2 Column 2 x 1.247

3 Column 2 x 1.171

Chart 7

PROJECTED BASIC LIMITS PREMIUM (BI)

<u>Number of Quarters of Data Used</u>	<u>Projected Exposure for Policy Year Ending 12/31/75¹</u>	<u>Projected Exposure for Policy Year Ending 12/31/76²</u>
12	71,842,992	92,070,304
11	72,407,877	92,770,992
10	72,510,583	92,981,198
9	72,921,408	93,471,679
8	73,280,879	93,892,092
7	73,280,879	93,892,092
6	73,383,586	94,032,229
5	74,770,119	95,854,016
4	76,772,890	98,376,490
3	78,518,896	100,618,689

¹ Computed by multiplying untrended premiums for policy year ending 12/31/75 (71,842,992/1.399 = 51,353,104) by exposure trend factors (from Chart 6 for policy year ending 12/31/75).

² Computed by multiplying untrended premiums for policy year ending 12/31/76 (92,070,304/1.314 = 70,068,725) by exposure trend factors (from Chart 6 for policy year ending 12/31/76).

Chart 8

PROJECTED BASIC LIMITS PREMIUM (PD)

<u>Number of Quarters of Data Used</u>	<u>Projected Exposure for Policy Year Ending 12/31/75¹</u>	<u>Projected Exposure for Policy Year Ending 12/31/76²</u>
12	26,059,936	32,737,376
11	26,262,838	32,986,519
10	26,302,094	33,061,262
9	26,451,114	33,235,662
8	26,581,507	33,385,147
7	26,581,507	33,385,147
6	26,618,762	33,434,976
5	27,121,706	34,082,747
4	27,848,180	34,979,662
3	28,481,516	35,776,919

¹ Computed by multiplying untrended premiums for policy year ending 12/31/75 ($26,059,936 / 1.399 = 18,627,545$) by exposure trend factors (from Chart 6 for policy year ending 12/31/75).

² Computed by multiplying untrended premiums for policy year ending 12/31/76 ($32,737,376 / 1.314 = 29,914,289$) by exposure trend factors (from Chart 6 for policy year ending 12/31/76).

Chart 9

LOSS RATIOS (BI)¹

Number Qtrs ²	6		Number of Years ³				3	
	1975	1976	5	5	4	4	1975	1976
12	.668	.588	.698	.610	.648	.574	.445	.421
11	.663	.584	.693	.606	.643	.570	.442	.418
10	.662	.583	.692	.604	.642	.568	.441	.417
9	.658	.580	.688	.601	.639	.565	.439	.415
8	.655	.577	.684	.598	.635	.563	.437	.413
7	.655	.577	.684	.598	.635	.563	.437	.413
6	.654	.576	.684	.598	.635	.562	.436	.412
5	.642	.565	.671	.586	.623	.551	.428	.404
4	.625	.551	.653	.571	.607	.537	.417	.394
3	.611	.538	.639	.558	.593	.525	.407	.385

¹ Computed from charts 3 & 7. Loss ratios are shown for policy years ending 12/31/75 and 12/31/76.

² Number of quarters used in computing exposure trend factor.

³ Number of years used in computing trend factor.

Chart 10

AVERAGE LOSS RATIO & RATE ADJUSTMENT¹ (BI)

Number Qtrs ²	6		Number of Years ³				3	
	LR	ADJ (%)	LR	ADJ (%)	LR	ADJ (%)	LR	ADJ (%)
12	.612	+7.4	.636	+11.6	.596	+4.6	.428	-24.9
11	.608	+6.6	.632	+10.9	.592	+3.8	.425	-25.4
10	.607	+6.4	.630	+10.6	.590	+3.5	.424	-25.6
9	.603	+5.9	.627	+10.0	.587	+3.0	.422	-25.9
8	.600	+5.3	.624	+ 9.4	.585	+2.6	.420	-26.3
7	.600	+5.3	.624	+ 9.4	.585	+2.6	.420	-26.3
6	.599	+5.2	.624	+ 9.4	.585	+2.6	.419	-26.5
5	.588	+3.2	.612	+ 7.3	.573	+0.5	.411	-27.9
4	.573	+0.6	.600	+ 4.5	.558	-2.1	.401	-29.7
3	.560	-1.7	.582	+ 2.2	.545	-4.3	.392	-31.3

¹ Average loss ratio is determined by weighting the loss ratio for policy year ending 12/31/75 by .3 plus the loss ratio for policy year ending 12/31/76 by .7. The adjustment is determined by dividing the average by .570 (the loss ratio method).

² Number of quarters used in computing exposure trend factor.

³ Number of years used in computing trend factor.

Chart 11

LOSS RATIOS (PD)¹

<u>Number Qtrs.²</u>	<u>6</u>		<u>5</u>		<u>4</u>		<u>3</u>	
	1975	1976	1975	1976	1975	1976	1975	1976
12	.732	.644	.710	.628	.618	.560	.475	.451
11	.726	.640	.704	.623	.613	.556	.471	.448
10	.725	.638	.703	.622	.613	.555	.471	.447
9	.721	.635	.699	.618	.609	.552	.468	.445
8	.718	.632	.696	.616	.606	.550	.467	.443
7	.718	.632	.696	.616	.606	.550	.467	.443
6	.717	.631	.695	.615	.605	.549	.465	.442
5	.703	.619	.682	.603	.594	.538	.456	.434
4	.685	.603	.664	.588	.578	.525	.444	.422
3	.670	.590	.549	.575	.566	.513	.435	.413

1 Computed from charts 3 & 8. Loss ratios are shown for policy years ending 12/31/75 and 12/31/76.

2 Number of quarters used in computing exposure trend factor.

3 Number of years used in computing trend factor.

Chart 12

AVERAGE LOSS RATIO & RATE ADJUSTMENT¹ (PD)

Number Qtrs ²	Number of Years ³							
	6		5		4		3	
	LR	ADJ (%)	LR	ADJ (%)	LR	ADJ (%)	LR	ADJ (%)
12	.670	+17.5	.653	+14.5	.577	+1.3	.458	-19.6
11	.666	+16.8	.647	+13.4	.573	+0.5	.455	-20.2
10	.664	+16.5	.646	+13.4	.572	+0.4	.454	-20.3
9	.661	+15.9	.642	+12.7	.569	-0.2	.452	-20.7
8	.658	+15.4	.640	+12.3	.567	-0.6	.450	-21.0
7	.658	+15.4	.640	+12.3	.567	-0.6	.450	-21.0
6	.657	+15.2	.639	+12.1	.566	-0.7	.449	-21.2
5	.644	+13.0	.627	+ 9.9	.555	-2.7	.441	-22.7
4	.628	+10.1	.611	+ 7.2	.541	-5.1	.429	-24.8
3	.614	+ 7.7	.597	+ 4.8	.529	-7.2	.420	-26.4

¹ Average loss ratio is determined by weighting the loss ratio for policy year ending 12/31/75 by .3 plus the loss ratio for policy year ending 12/31/76 by .7. The adjustment is determined by dividing the average by .570 (the loss ratio method).

² Number of quarters used in computing exposure trend factor.

³ Number of years used in computing trend factor.

APPENDIX C

Note: In the case of reciprocal exchanges and other types of insurers using special terminology, the printed items and references in this blank, if not appropriately changed, shall be construed to apply to such insurers in respect to corresponding data and information as the context may require.

ANNUAL STATEMENT

For the Year Ended December 31, 1979

OF THE CONDITION AND AFFAIRS OF THE

NAIC Group Code: NAIC Company Code: Employer's ID No.:

Organized under the Laws of the State of _____, made to the

INSURANCE DEPARTMENT OF THE STATE OF

PURSUANT TO THE LAWS THEREOF

Incorporated _____ Commenced Business _____

Home Office _____, _____
(Street and Number) (City or Town, State and Zip Code)

Mail Address _____, _____
(Street and Number) (City or Town, State and Zip Code)

Main Administrative Office _____
(Area Code) (Telephone Number)

Contact Person and Phone Number _____

OFFICERS**

President _____

Secretary _____ Vice-Presidents _____

Treasurer _____

DIRECTORS OR TRUSTEES**

[illegible]

State of _____
County of _____

} ss
President

Secretary,

Treasurer *

of the said insured, and that on the thirty-first day of December last, all of the herein described assets were the absolute property of the said insured, free and clear from any liens or claims thereon, except as herein stated; and that this annual statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to are a full and true statement of all the assets and liabilities of and the condition and affairs of the said insured, in as of the thirty-first day of December last, and of its income and deductions therefrom for the year ended on that date, according to the best of its information, knowledge and belief, and

Subscribed and sworn to before me this

day of _____, 1980

President

Secretary

Treasurer *

*or corresponding person having charge of the accounts and finances of the insurer.

Note: In the case of United States Branches the affidavit must be amended to show that it covers the statement of the United States Branch. If the United States Manager or the Attorney-in-Fact of a Reciprocal Exchange or Lloyds Underwriters is a corporation the affidavit must be signed by two (or three) principal officers of the corporation or if a partnership by two (or three) of the principal members of the partnership.

**Show full name (initials not acceptable) and indicate by number sign (#) those officers and directors who did not occupy the indicated position in the previous annual statement.

Note: The pages identified by the symbol © in this annual statement were reproduced by the John S. Swift Company from master forms copyright 1979 by the John S. Swift Company, Incorporated.

		(1) Current Year	(2) Previous Year
ASSETS			
1.	Bonds *		
2.	Stocks: *		
2.1	Preferred stocks		
2.2	Common stocks		
3.	Mortgage loans on real estate		
4.	Real estate:		
4.1	Properties occupied by the company (less \$ encumbrances)		
4.2	Other properties (less \$ encumbrances)		
5.	Collateral loans		
6.	Cash on hand and on deposit		
7.	Other invested assets		
7a.	Subtotals, cash and invested assets (Items 1 to 7)		
8.	Agents' balances or uncollected premiums:		
8.1	Premiums and agents' balances in course of collection		
8.2	Premiums, agents' balances and installments booked but deferred and not yet due		
9.	Funds held by or deposited with reinsured companies		
10.	Bills receivable, taken for premiums		
11.	Reinsurance recoverable on loss payments		
12.	Federal income tax recoverable		
13.	Electronic data processing equipment		
14.	Interest, dividends and real estate income due and accrued		
15.	Receivable from affiliates		
16.	Equities and deposits in pools and associations		
17.			
18.			
19.			
20.			
21.			
22.	TOTALS (Items 7a through 21)		

*State basis of valuation

Note: The items on this page to agree with Exhibit 1, Col. 4

LIABILITIES, SURPLUS AND OTHER FUNDS

	(1) Current Year	(2) Previous Year
1. Losses (Part 3A, Column 5, Item 31)		
2. Loss adjustment expenses (Part 3A, Column 6, Item 31)		
3. Contingent commissions and other similar charges		
4. Other expenses (excluding taxes, licenses and fees)		
5. Taxes, licenses and fees (excluding federal and foreign income taxes)		
6. Federal and foreign income taxes (excluding deferred taxes)		
7.		
8. Borrowed money		
9. Interest, including \$ on borrowed money		
10. Unearned premiums (Part 2B, Column 7, Item 31)		
11. Dividends declared and unpaid:		
(a) Stockholders		
(b) Policyholders		
12. Funds held by company under reinsurance treaties		
13. Amounts withheld or retained by company for account of others		
14a. Unearned premiums on reinsurance in unauthorized companies \$		
14b. Reinsurance on paid losses \$ and on unpaid losses		
\$ due from unauthorized companies \$		
14c. Total \$		
15. Less funds held or retained by company for account of such unauthorized companies as per Schedule F, Part 2, Column 6 \$		
16. Excess of statutory reserves over statement reserves (Schedule P, Parts 1A, 1B, 1C, 1D and Schedule K)		
17. Net adjustments in assets and liabilities due to foreign exchange rates		
18. Ceded reinsurance balances payable		
19. Drafts outstanding		
20. Payable to affiliates		
21. Payable for securities		
22.		
23. Total liabilities		
24. Special surplus funds:		
(a)		
(b)		
(c)		
25A. Capital paid up		
25B.		
26A. Gross paid in and contributed surplus		
26B. Unassigned funds (surplus)		
26C. Less treasury stock, at cost:		
(1) shares common (value included in Item 25A \$)		
(2) shares preferred (value included in Item 25A \$)		
27. Surplus as regards policyholders (Items 24 to 26B, less 26C) (Page 4, Item 40)		
28. TOTALS (Page 2, Item 22)		

**UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME**

UNDERWRITING INCOME

1. Premiums earned (Part 2, Column 4, Item 31)
- DEDUCTIONS**
2. Losses incurred (Part 3, Column 7, Item 31)
3. Loss expenses incurred (Part 4, Column 1, Item 22)
4. Other underwriting expenses incurred (Part 4, Column 2, Item 22)
5.
6. Total underwriting deductions (Items 2 through 5)
7. Net underwriting gain or loss (—) (Item 1 minus 6)

INVESTMENT INCOME

8. Net investment income earned (Part 1, Item 16)
9. Net realized capital gains or losses (—) (Part 1A, Item 11)
- 9A. Net investment gain or loss (—) (Items 8+9)

OTHER INCOME

10. Net gain or loss (—) from agents' or premium balances charged off
(amount recovered \$ amount charged off \$)
11. Finance and service charges not included in premiums (Schedule T, Column 8 total)
12.
13.
14.
15.
16.
17. Total other income (Items 10 through 16)
18. Net income before dividends to policyholders and before federal and foreign income taxes (Items 7+9A+17)
- 18A. Dividends to policyholders
- 18B. Net income, after dividends to policyholders but before federal and foreign income taxes (Item 18 minus 18A)
19. Federal and foreign income taxes incurred*
20. Net income (Item 18B minus 19) (to Item 22)

CAPITAL AND SURPLUS ACCOUNT

21. Surplus as regards policyholders, December 31 previous
year (Page 4, Column 2, Item 40)

GAINS (+) AND LOSSES (—) IN SURPLUS

22. Net income (from Item 20)
23. Net unrealized capital gains or losses (Part 1A, Item 12)
24. Change in non-admitted assets (Exhibit 2, Item 33, Col. 3)
25. Change in liability for unauthorized reinsurance
26. Change in foreign exchange adjustment
27. Change in excess of statutory reserves over statement reserves
28. Capital changes:
 - (a) Paid in (Exhibit 3, Item 6)
 - (b) Transferred from surplus (Stock Divd.)
 - (c) Transferred to surplus
29. Surplus adjustments:
 - (a) Paid in (Exhibit 3, Item 7)
 - (b) Transferred to capital (Stock Divd.)
 - (c) Transferred from capital
30. Net remittances from or to Home Office (Exhibit 3, Items 4b+12b)
31. Dividends to stockholders (cash)
32. Change in treasury stock
33. Extraordinary amounts of taxes for prior years
34.
35.
36.
37.
38.
39. Change in surplus as regards policyholders for the year
40. Surplus as regards policyholders, December 31 current year (Page 3, Item 27)

*Amount of federal income taxes incurred and available for recoupment in the event of future net losses: current year \$ first preceding year \$
 second preceding year \$ Amount of net losses carried forward and available to offset future net income subject to
 federal income taxes: current year \$ first preceding year \$ second preceding year \$ third preceding year \$
 fourth preceding year \$

Name

STATEMENT OF CHANGES IN FINANCIAL POSITION

FUNDS PROVIDED

FROM OPERATIONS:

1. Underwriting gain (Page 4, Item 7)
- Charges (+) credits (—) to underwriting gain not affecting funds:

2. Change in liability for losses and adjusting expenses
3. Change in liability for unearned premiums
4. Change in liability for other underwriting expenses
5. Change in agents' balances
6. Change in net reinsurance receivable or payable
7. Change in non-admitted assets (Page 4, Item 24)
8. Change in amounts withheld for account of others
9. Change in other items:
- 9.1 Balances with affiliates
- 9.2 Electronic data processing equipment
- 9.3 Other assets
- 9.4 Other liabilities

10. Funds provided from underwriting (Items 1 to 9.4)
11. Investment gain (Page 4, Item 9A)
- Charges (+) credits (—) to investment gain not affecting funds:
12. Change in liability for investment expenses
13. Change in interest, dividends and real estate income accrued
14. Depreciation and amortization
15. Other items:
- 15.1
- 15.2

16. Funds provided from investments (Items 11 to 15.2)
17. Other income (Page 4, Item 17)
18. Dividends paid to policyholders
19. Federal income taxes paid
20. Funds provided from operations (Items 10, 16, 17, 18 and 19)

FROM INVESTMENTS SOLD, MATURED OR REPAID:

21. Bonds
22. Stocks
23. Mortgage loans
24. Real estate
25. Collateral loans
26. Other invested assets
27. Net change in investments acquired and disposed of during year
28. Realized capital gains (—) losses (+) (Page 4, Item 9)
29. Funds provided from disposition of investments (Items 21 to 28)
30. Other funds provided:
- 30.1 Capital and surplus paid in
- 30.2 Borrowed money \$ less repaid \$
- 30.3 Other sources
31. Total other funds provided (Items 30.1 to 30.3)
32. Total funds provided (Items 20, 29 and 31)

FUNDS APPLIED

COST OF INVESTMENTS ACQUIRED:

33. Bonds
34. Stocks
35. Mortgage loans
36. Real estate
37. Collateral loans
38. Other invested assets
39. Total cost of investments acquired (Items 33 to 38)
40. Other funds applied:
- 40.1 Dividends to stockholders
- 40.2 Change in foreign exchange
- 40.3
41. Total other funds applied (Items 40.1 to 40.3)
42. Total funds applied (Items 39 and 41)
43. Increase in cash (Items 32 minus 42)

CASH ON HAND AND ON DEPOSIT:

44. Beginning of year
45. End of year

(1)
Current Year(2)
Previous Year

UNDERWRITING AND INVESTMENT EXHIBIT
PART 1—INTEREST, DIVIDENDS AND REAL ESTATE INCOME

(1) Schedule	(2) Collected During Year Less Paid For Accrued On Purchases	PAID IN ADVANCE		DUE AND ACCRUED ¹		(8) Earned During Year (3) + (5) + (6) — (4) — (7)
		(4) Current Year	(5) Previous Year	(6) Current Year	(7) Previous Year	
1. U. S. government bonds	D*					
1.1 Bonds exempt from U. S. tax	D*					
1.2 Other bonds (unaffiliated)	D*					
1.3 Bonds of affiliates	D*					
2.1 Preferred stocks (unaffiliated)	D					
2.1.1 Preferred stocks of affiliates	D					
2.2 Common stocks (unaffiliated)	D					
2.2.1 Common stocks of affiliates	D					
3. Mortgage loans	B†					
4. Real estate	A§					
5. Collateral loans	C					
6. Cash on deposit	N					
7. Other invested assets	BA					
8. Options	D					
9.						
10. Totals						

(1)	(7)
11. Total investment expenses incurred (Part 4, Col. 3, Item 22)	DEDUCTIONS
12. Depreciation on real estate (for companies which depreciate annually on a formula basis)	
13.	
14.	
15. Total deductions (Items 11 to 14)	
16. Net Investment Income Earned (Item 10 minus Item 15—to Page 4, Item 8)	

* Includes \$ accrual of discount less \$ amortization of premium.
† Includes \$ accrual of discount less \$ amortization of premium.
§ Includes \$ for company's occupancy of its own buildings.
‡ Admitted items only. State basis of exclusions

PART 1A—CAPITAL GAINS AND LOSSES ON INVESTMENTS

(1)	(2) Profit on Sales or Maturity	(3) Loss on Sales or Maturity	(4) Increases by Adjustment in Book Value	(5) Decreases by Adjustment in Book Value	(6) Net Gain (+) or Loss (—) from Change in Difference Between Book and Admitted Values	(7) Total (Net of Cols. (2) to (6) incl.) (2) — (3) + (4) — (5) + (6)
1. U. S. government bonds						
1.1 Bonds exempt from U. S. tax						
1.2 Other bonds (unaffiliated)						
1.3 Bonds of affiliates						
2.1 Preferred stocks (unaffiliated)						
2.1.1 Preferred stocks of affiliates						
2.2 Common stocks (unaffiliated)						
2.2.1 Common stocks of affiliates						
3. Mortgage loans						
4. Real estate				‡		
5. Collateral loans						
6. Cash on hand and on deposit						
7. Other invested assets						
8. Options						
9.						
10. Totals						

(Distribution of Item 10, Col. 7)

11. Net realized capital gains or losses* (Page 4, Item 9) (Col. 2 — 3, Item 10)	
12. Net unrealized capital gains or losses* (Page 4, Item 23) (Col. 4 — 5 + 6, Item 10)	

* Attach statement or memorandum explaining basis of division.

‡ Excluding \$ depreciation on real estate included in Part 1, Item 12.

ANNUAL STATEMENT FOR THE YEAR 1979 OF THE

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2—PREMIUMS EARNED

PART 2A—PREMIUMS IN FORCE

LINE OF BUSINESS	(1) Net Premiums Written Column 4, Part 2C	(2) Unearned Premiums Previous Year Per Col. 3, Last Year's Part 2	(3) Unearned Premiums Current Year Per Col. 7, Part 2B	(4) Premiums Earned During Year Cols. (1) + (2) — (3)	(1) In Force Dec 31, 1979, or Last Day of Year Deducting Reinsurance	(2) Premiums Renewed During Year per Cols. 1 and 2, Part 2C	(3) Excess of Original Amount Received for Additional Reinsurance	(4) Deduct Expirations and Other Turn Premiums on Cancellations	(5) In Force At End of Year (1) + (2) — (3) — (4)	(6) Deduct Reinsurance (Subscribed Unauthorized Companies	(7) Net Premiums Earned (5) — (6)	
1. Fire												1
2. Allied lines												2
3. Farmowners multiple peril												3
4. Homeowners multiple peril												4
5. Commercial multiple peril												5
8. Ocean marine												8
9. Inland marine												9
10.												10
11. Medical malpractice												11
12. Earthquake												12
13. Group accident and health												13
14. Credit accident and health (group and individual)*												14
15. Other accident and health												15
16. Workmen's compensation												16
17. Other liability												17
19. Auto liability												19
21. Auto phys. damage												21
22. Aircraft (all perils)												22
23. Fidelity												23
24. Surety												24
25. Glass												25
26. Burglary and theft												26
27. Boiler and machinery												27
28. Credit												28
29. International												29
30. Reinsurance												30
31. TOTALS												31

*Business not exceeding 120 months duration

ANNUAL STATEMENT FOR THE YEAR 1979 OF THE

Name

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2B—RECAPITULATION OF ALL PREMIUMS

(Gross premiums (less reinsurance) and unearned premiums on all unexpired risks and reserve for return premiums under rate credit or retrospective rating plans based upon experience, viz.:

LINE OF BUSINESS	Running One Year or Less From Date of Policy		Running More Than One Year from Date of Policy		(5) Advance Premiums (100%)	(6) Reserve for Return Premiums Based on Experience	(7) Total Reserve for Unearned Premiums (2) + (4) + (6)
	(1) Premiums In Force	(2) Amount Unearned*	(3) Premiums In Force	(4) Amount Unearned*			
1. Fire				(c)			1
2. Allied lines							2
3. Farmowners multiple peril							3
4. Homeowners multiple peril							4
5. Commercial multiple peril							5
8. Ocean marine							8
9. Inland marine							9
10.							10
11. Medical malpractice							11
12. Earthquake							12
13. Group accident and health					(b)		13
14. Credit accident and health (group and individual)**							14
15. Other accident and health					(a) (b)		15
16. Workmen's compensation							16
17. Other liability							17
19. Auto liability							19
21. Auto phys. damage							21
22. Aircraft (all perils)							22
23. Fidelity							23
24. Surety							24
25. Glass							25
26. Burglary and theft							26
27. Boiler and machinery							27
28. Credit							28
29. International							29
30. Reinsurance							30
31. TOTALS							31

PART 2C—PREMIUMS WRITTEN

(1) Direct Business	Gross Premiums (Less Return Premiums), Including Policy and Membership Fees, Written and Renewed During Year		(4) Net Premiums Written (1) + (2) - (3)
	(2) Reinsurance Assumed	(3) Reinsurance Ceded	
			1
			2
			3
			4
			5
			8
			9
			10
			11
			12
			13
			14
			15
			16
			17
			19
			21
			22
			23
			24
			25
			26
			27
			28
			29
			30
			31

If gross premiums are used, the aggregate of all the premiums written in the policies or renewals in force

Also this, so returned in this statement? Answer

State here basis of computation used in each case

Business not exceeding 120 months duration

(a) Additional reserve on non-cancelable accident and health policies
(b) Including \$ reserved for deferred maturity and other similar benefits
(c) Including \$ premium deposits on perpetual fire insurance risks

ANNUAL STATEMENT FOR THE YEAR 1979 OF THE

Name

UNDERWRITING AND INVESTMENT EXHIBIT
PART 3—LOSSES PAID AND INCURRED

LINE OF BUSINESS	LOSSES PAID LESS SALVAGE				(5) Net Losses Unpaid Current Year (Part 2A, Col. 5)	(6) Net Losses Unpaid Previous Year	(7) Losses Incurred Current Year (4) + (5) - (6)	(8) Ratio Losses Incurred to Premiums Earned (Col. 4, Part 2)	
	(1) Direct Business	(2) Reinsurance Assumed	(3) Reinsurance Recovered	(4) Net Payments (1) + (2) - (3)					
1. Fire									1
2. Allied lines									2
3. Farmowners multiple peril									3
4. Homeowners multiple peril									4
5. Commercial multiple peril									5
8. Ocean marine									8
9. Inland marine									9
10.									10
11. Medical malpractice									11
12. Earthquake									12
13. Group accident and health									13
14. Credit accident and health (group and individual)									14
15. Other accident and health									15
16. Workmen's compensation									16
17. Other liability									17
19. Auto liability									19
21. Auto phys. damage									21
22. Aircraft (all perils)									22
23. Fidelity									23
24. Surety									24
25. Glass									25
26. Burglary and theft									26
27. Boiler and machinery									27
28. Credit									28
29. International									29
30. Reinsurance									30
31. TOTALS									31

*Business not exceeding 120 months' duration.

UNDERWRITING AND INVESTMENT EXHIBIT
PART 3A — UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

LINE OF BUSINESS	ADJUSTED OR IN PROCESS OF ADJUSTMENT		(2) Deduct Reinsurance from Authorized and Unauthorized Companies Part 1A, Sec. 1, Col. 2	(3) Net Losses Excl. Authorized and Unauthorized (1a + 1b - 2)	INCURRED BUT NOT REPORTED		(5) Net Losses Unpaid Loss Adjustment Expenses 3 + 4a + 4b	(6) Unpaid Loss Adjustment Expenses
	(1a) Direct	(1b) Reinsurance Assumed per Schedule F, Part 1A, Sec. 2, Col. 2			(4a) Direct	(4b) Reinsurance Assumed Loss Ceded		
1. Fire								
2. Allied lines								
3. Farmowners multiple peril								
4. Homeowners multiple peril								
5. Commercial multiple peril								
8. Ocean marine								
9. Inland marine								
10.								
11. Medical malpractice								
12. Earthquake								
13. Group accident and health								
14. Credit accident and health (group and individual)*						(a)		
15. Other accident and health						(a)		
16. Workmen's compensation								
17. Other liability								
19. Auto liability								
21. Auto phys. damage								
22. Aircraft (all perils)								
23. Fidelity								
24. Surety								
25. Glass								
26. Burglary and theft								
27. Boiler and machinery								
28. Credit								
29. International								
30. Reinsurance								
31. TOTALS								

(a) Including \$

for present value of life indemnity claims and \$

received for deferred maternity and other similar benefits.

*Business not exceeding 120 months duration

UNDERWRITING AND INVESTMENT EXHIBIT

PART 4 — EXPENSES

	(1) LOSS ADJUSTMENT EXPENSES	(2) OTHER UNDERWRITING EXPENSES	(3) INVESTMENT EXPENSES	(4) TOTAL
1. Claim adjustment services:				
(a) Direct				
(b) Reinsurance assumed				
(c) Reinsurance ceded				
(d) Net claim adjustment services (a + b - c)				
2. Commission and brokerage:				
(a) Direct				
(b) Reinsurance assumed				
(c) Reinsurance ceded				
(d) Contingent—net				
(e) Policy and membership fees				
(f) Net commission and brokerage (a + b - c + d + e)				
3. Allowances to managers and agents				
4. Advertising				
5. Boards, bureaus and associations				
6. Surveys and underwriting reports				
7. Audit of assureds' records				
8. Salaries				
9. Employee relations and welfare				
10. Insurance				
11. Directors' fees				
12. Travel and travel items				
13. Rent and rent items				
14. Equipment				
15. Printing and stationery				
16. Postage, telephone and telegraph, exchange and express				
17. Legal and auditing				
17a. Totals (Items 3 to 17)				
18. Taxes, licenses and fees:				
(a) State and local insurance taxes				
(b) Insurance department licenses and fees				
(c) Payroll taxes				
(d) All other (excluding federal and foreign income and real estate)				
(e) Total taxes, licenses and fees (a + b + c + d)				
19. Real estate expenses				
20. Real estate taxes				
21. Miscellaneous (itemize):				
(a)				
(b)				
(c)				
22. Total expenses incurred				
23. Less unpaid expenses—current year				
24. Add unpaid expenses—previous year				
25. Total expenses paid (Items 22—23 + 24)				

EXHIBIT 1 — ANALYSIS OF ASSETS

	(1) Ledger Assets	(2) Non-Ledger Including Excess of Market (or Amortized) Over Book Values	(3) Assets Not Admitted Including Excess of Book Over Market (or Amortized) Values	(4) Net Admitted Assets (Cols. 1 + 2 - 3)
1. Bonds (Schedule D)				
2. Stocks (Schedule D):				
2.1 Preferred stocks				
2.2 Common stocks				
3. Mortgage loans on real estate (Schedule B):				
(a) First liens				
(b) Other than first liens				
4. Real estate, less encumbrances (Schedule A)				
5. Collateral loans (Schedule C)				
6. Cash on hand and on deposit:				
(a) Cash in company's office				
(b) Cash on deposit (Schedule N)				
7. Other invested assets (Schedule BA)				
8. Agents' balances or uncollected premiums (net as to commissions and dividends):				
8.1 Premiums and agents' balances in course of collection				
8.2 Premiums, agents' balances and installments booked but deferred and not yet due				
9. Funds held by or deposited with reinsured companies				
10. Bills receivable, taken for premiums				
11. Reinsurance recoverable on loss payments (Schedule F, Part 1A, Col. 1)				
12. Federal income tax recoverable				
13. Electronic data processing equipment				
14. Interest, dividends and real estate income due and accrued				
15. Receivable from affiliates				
16. Equities and deposits in pools and associations				
17. Equipment, furniture and supplies				X X X
18. Bills receivable not taken for premiums				X X X
19. Loans on personal security, endorsed or not				X X X
20.				
21a.				
21b.				
21c.				
21d.				
21e.				
21f.				
22. Totals				

EXHIBIT 2—ANALYSIS OF NON-ADMITTED ASSETS

Excluding Excess of Book over Market (or Amortized) Values and Item 14, Col. (3), Exhibit 1

	(1) End of Previous Year	(2) End of Current Year	(3) Change for Year Increase (—) or Decrease (+) (Col. 1 - 2)
23. Company's stock owned			X X X X X
24. Loans on company's stock			
25. Deposits in suspended depositories, less estimated amount recoverable			
26. Agents' balances or uncollected premiums over three months due:			
26.1 Premiums and agents' balances in course of collection			
26.2 Premiums, agents' balances and installments booked but deferred and not yet due			
27. Bills receivable, past due, taken for premiums			
28. Excess of bills receivable, not past due, taken for risks over the unearned premiums thereon			
29. Equipment, furniture and supplies			
30. Bills receivable, not taken for premiums			
31. Loans on personal security, endorsed or not			
32. Other assets not admitted (itemize):			
(a)			
(b)			
(c)			
(d)			
(e)			
(f)			
(g)			
(h)			
(i)			
(j)			
33. Total change (Col. 3) (Carry to Item 24, Page 4)	X X X X X	X X X X X	

EXHIBIT 3—RECONCILIATION OF LEDGER ASSETS

INCREASE IN LEDGER ASSETS

1. Net premiums written (Part 2, Col. 1, Item 31)
2. Interest, dividends and real estate income received (Part 1, Item 10, Col. (3))
3. From sale or maturity of ledger assets (Part 1A, Col. 2, Item 10)
4. Other income items or increases, viz.:
 - (a) Agents' balances previously charged off
 - (b) Remittances from home office to U. S. branch (gross)
 - (c) Funds held under reinsurance treaties (net)
 - (d) Borrowed money (gross)
 - (e) Amounts withheld or retained for account of others (net)
 - (f) Ceded reinsurance balances
 - (g)
 - (h)
 - (i)
 - (j)
 - (k)
 - (l)
5. Adjustment in book value of ledger assets (Part 1A, Item 10, Col. 4)
6. Capital paid in (Page 4, Item 28a)
7. Surplus paid in (Page 4, Item 29a)
8. Total (Items 1 to 7)

DECREASE IN LEDGER ASSETS

9. Net losses paid (Part 3, Col. 4, Item 31)
10. Expenses paid (Part 4, Item 25, Col. (4))
11. From sale or maturity of ledger assets (Part 1A, Col. 3, Item 10)
12. Other disbursement items or decreases, viz.:
 - (a) Agents' balances charged off
 - (b) Remittances to home office from U. S. branch (gross)
 - (c) Funds held under reinsurance treaties (net)
 - (d) Borrowed money (gross)
 - (e) Amounts withheld or retained for account of others (net)
 - (f) Ceded reinsurance balances
 - (g)
 - (h)
 - (i)
 - (j)
 - (k)
 - (l)
13. Adjustment in book value of ledger assets (Part 1A, Col. 5) and depreciation (Item 12, Part 1)
14. Federal and foreign income taxes paid
15. Dividends paid stockholders
16. Dividends to policyholders on direct business, less \$ dividends on reinsurance assumed or ceded (net)
17.
18.
19. Total (Items 9 to 18)

RECONCILIATION BETWEEN YEARS

20. Amount of ledger assets as per balance December 31 of previous year
21. Increase (+) or decrease (–) in ledger assets during the year (Item 8 minus Item 19)
22. Balance = ledger assets December 31 of current year

GROUP CODE:

EXHIBIT OF PREMIUMS AND LOSSES

CO. CODE:

BUSINESS IN THE STATE OF**DURING THE YEAR**

(1) LINE OF BUSINESS	(2) GROSS PREMIUMS, INCLUDING POLICY AND MEMBERSHIP FEES, LESS RETURN PREMIUMS AND PREMIUMS ON POLICIES NOT TAKEN		(4) DIVIDENDS PAID OR CREDITED TO POLICYHOLDERS ON DIRECT BUSINESS	(5) DIRECT LOSSES PAID (deducting salvage)	(6) DIRECT LOSSES INCURRED	(7) DIRECT LOSSES UNPAID
	(2) DIRECT PREMIUMS WRITTEN	(3) DIRECT PREMIUMS EARNED*				
1. Fire						
2. Allied lines						
3. Farmowners multiple peril						
4. Homeowners multiple peril						
5. Commercial multiple peril						
8. Ocean marine						
9. Inland marine						
10						
11. Medical malpractice						
12. Earthquake						
13. Group accident and health						
14. Credit A & H (Group and Individual) [†]						
15.1 Collectively renewable A & H						
15.2 Non-cancellable A & H						
15.3 Guaranteed renewable A & H						
15.4 Non-renewable for stated reasons only						
15.5 Other accident only						
15.6 All other A & H						
16. Workmen's compensation						
17. Other liability						
19.1 Private passenger auto no-fault (personal injury protection) ^{††}						
19.2 Other private passenger auto liability						
19.3 Commercial auto no-fault (personal injury protection) ^{††}						
19.4 Other commercial auto liability						
21.1 Private passenger auto physical damage						
21.2 Commercial auto physical damage						
22. Aircraft (all perils)						
23. Fidelity						
24. Surety						
25. Glass						
26. Burglary and theft						
27. Boiler and machinery						
28. Credit						
31. TOTALS†						

Finance and service charges not included in Lines 1 to 31: \$

*Direct premiums earned may be estimated by formula on the basis of country-wide ratios for the respective lines of business except where adjustments are required to recognize special situations.

†Business not exceeding 120 months duration.

†To agree with Schedule T

††As defined by state concerned

**CREDIT ACCIDENT AND HEALTH INSURANCE
(Included in the Above Exhibit)**

To be submitted not later than April 1.

(1)	(2) DIRECT PREMIUMS (Excluding Reinsurance Accepted and without Deduction of Reinsurance Ceded)	(3) DIRECT PREMIUMS EARNED** (prior to Dividends and Retrospective Rate Credits Paid or Credited)	(4) DIVIDENDS PAID OR CREDITED ON DIRECT BUSINESS	(5) DIRECT LOSSES PAID	(6) DIRECT LOSSES INCURRED**	(7) DIRECT LOSSES UNPAID
32a. Group A & H Policies — Loans of 60 or LESS months' duration						
32b. Group A & H Policies — Loans of GREATER THAN 60 MONTHS' DURATION BUT NOT GREATER THAN 120 MONTHS						
33. Other A & H Policies						
34. Totals (Items 32 + 33)						

**The figures shown in these columns should be consistent with the corresponding figures in the Credit Life and Accident and Health Exhibit

GENERAL INTERROGATORIES — PART A

1. Have there been included in this statement proper reserves to cover liabilities which may have been actually incurred on or before December 31 but of which no notice was received at the home office until subsequently? ANSWER: _____
2. Does the company issue both participating and non-participating policies? ANSWER: _____ If so, state the amount of net premiums in force on both participating and non-participating policies. ANSWER: _____
3. (Mutual Companies and Reciprocal Exchanges only):
 - (a) Does company issue assessable policies? ANSWER: _____
 - (b) Does company issue non-assessable policies? ANSWER: _____
 - (c) If assessable policies are issued, what is the extent of the contingent liability of the policyholders? ANSWER: _____
 - (d) Total amount of assessments laid or ordered to be laid during the year on deposit notes or contingent premiums, \$ _____
 - (e) State total amount of advances to surplus not repaid, \$ _____
4. (Reciprocal Exchanges only):
 - (a) Does the Exchange appoint local agents? ANSWER: _____ If so, is the commission paid out of Attorney-in-Facts' compensation or as a direct expense of the Exchange? ANSWER: _____
 - (b) What expenses of the Exchange are not paid out of the compensation of the Attorney-in-Fact? ANSWER: _____
 - (c) Has any Attorney-in-Fact compensation, contingent on fulfillment of certain conditions, been deferred? ANSWER: _____ If so, give full information.
5. What interest, direct or indirect, has this company in the capital stock of any other insurance company? ANSWER: _____
6. Is the company directly or indirectly owned or controlled by any other company, corporation, group of companies, partnership or individual? ANSWER: _____ If so, give full particulars.

CAPITAL STOCK OF THIS COMPANY						
CLASS	NUMBER SHARES AUTHORIZED	NUMBER SHARES OUTSTANDING	PAR VALUE PER SHARE	REDEMPTION PRICE IF CALLABLE	IS DIVIDEND RATE LIMITED?	ARE DIVIDENDS CUMULATIVE?
Preferred						
Common				X X X X	X X X X	X X X X

8. If company has outstanding bonds, debentures, guaranty capital notes, etc., furnish pertinent information concerning redemption price, interest features, etc. ANSWER: _____
- 8a. Does the company have a plan or program for granting to agents, brokers, employees or others any options, warrants or rights to purchase stock of the company or its parents, subsidiaries or affiliates, other than options, warrants or rights issued to all stockholders on a pro-rata basis? ANSWER: _____ If the answer is in the affirmative, attach a statement providing the information required by the Instructions for this General Interrogatory
9. Does the company own any securities of a real estate holding company or otherwise hold real estate indirectly? ANSWER: _____ If so, explain: _____

Name of real estate holding company	Number of parcels involved	Total book value \$
-------------------------------------	----------------------------	---------------------
10. If reporting company is a stock company, has it filed Schedule S/S with the Insurance Commissioner of its domiciliary state for the year covered by this Annual Statement? ANSWER: _____ If answer is "no," explain in detail in separate memorandum to the Insurance Commissioner of domiciliary state.
- 10a. Is the company a member of an insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer? ANSWER: _____
- 10b. If the answer to General Interrogatory 10a is yes, did the company register and file with its domiciliary State Insurance Commissioner, Director or Superintendent, or with such regulatory official of the State of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the company subject to standards and disclosure requirements substantially similar to those required by such Act and regulations? ANSWER: _____ State regulating _____
11. Total amount loaned during the year to directors or other officers, \$ _____; to stockholders not officers, \$ _____ Total amount of loans outstanding at end of year to directors or other officers, \$ _____; to stockholders not officers, \$ _____
12. Did any person while an officer, director or trustee of the company receive directly or indirectly, during the period covered by this statement, any commission on the business transactions of the company? ANSWER: _____
- 12a. Did any person while an officer, director, trustee or employee receive directly or indirectly, during the period covered by this statement, any compensation in addition to his regular compensation on account of the reinsurance transactions of the company? ANSWER: _____
- 12b. Has the company an established procedure for disclosure to its board of directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees, or responsible employees which is in or is likely to conflict with the official duties of such person? ANSWER: _____
- 12c. Except for retirement plans generally applicable to its staff employees and agents and contracts with its agents for the payment of commissions, has the company any agreement with any person whereby it agrees that for any service rendered or to be rendered he shall receive, directly or indirectly, any salary, compensation or emolument that will extend beyond a period of 12 months from the date of the agreement? ANSWER: _____
13. What amount of installment notes is owned and now held by the company? ANSWER: _____
14. Have any of these notes been hypothecated, sold or used in any manner as security for money loaned within the past year? ANSWER: _____ If so, what amount? ANSWER: _____
15. Largest net aggregate amount insured in any one risk (excluding workmen's compensation). ANSWER: _____
16. What provision has this company made to protect itself from an excessive loss in the event of a catastrophe under a workmen's compensation contract issued without limit of loss? ANSWER: _____
17. Has this company guaranteed any financed premium accounts? ANSWER: _____ If so, give full information.
18. Has this company reinsured any risk with any other company and agreed to release such company from liability, in whole or in part, from any loss that may occur on the risk, or portion thereof, reinsured? ANSWER: _____ If so, give full information.
19. If the company has assumed risks from another company, there should be charged on account of such reinsurance a reserve equal to that which the original company would have been required to charge had it retained the risks. Has this been done? ANSWER: _____
20. Has this company guaranteed policies issued by any other company and now in force? ANSWER: _____ If so, give full information.
21. Were all the stocks, bonds and other securities owned December 31 of current year, in the actual possession of the company on said date, except as shown by the schedules of special and other deposits? ANSWER: _____ If not, give full and complete information relating thereto.
- 21a. Does the company own any investments in letter stock or other restricted securities? ANSWER: _____ If yes, are they identified by appropriate symbol or otherwise in Schedule D? ANSWER: _____
- 21b. Have all private placement investments which were the subject of renegotiation or modification of their terms during the year been disclosed to the Valuation of Securities Office of the NAIC, with full details as to the provisions renegotiated or modified? ANSWER: _____
- 21c. Have tilings been made with the Valuation of Securities office of the NAIC in connection with acquisition and disposition of securities as required by Section 8 of the Valuation Procedures and Instructions for Bonds and Stocks? ANSWER: _____
22. Were any of the stocks, bonds or other assets of the company loaned, placed under option agreement, or otherwise made available for use by another person during the year covered by this statement? ANSWER: _____ If yes, give full and complete information relating thereto.
23. State as of what date the latest financial examination of the company was made or is being made, and by what department or departments. ANSWER: _____
24. Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the company? ANSWER: _____ If so, when? _____ If not previously filed, furnish herewith a certified copy of the instrument as amended.
25. Has any direct new business been solicited or written in any state where the company was not licensed? ANSWER: Yes _____ No _____ If answer is "yes," explain: _____
26. Is the purchase or sale of all investments of the company passed upon either by the board of directors or a subordinate committee thereof? ANSWER: _____
27. Does the company keep a complete permanent record of the proceedings of its board of directors and all subordinate committees thereof? ANSWER: _____
28. Have the instructions accompanying the blank furnished by this Department been followed in every detail? ANSWER: _____ (Only United States branches of foreign companies need answer interrogatories 29 and 30):
29. What changes have been made during the year in the United States manager or the United States trustees of the company? ANSWER: _____
30. Does this statement contain all business transacted for the company through its United States branch, on risks wherever located? ANSWER: _____
31. Are any of the liabilities for unpaid losses and unpaid loss adjustment expenses discounted to present value at a rate of interest greater than zero? ANSWER: _____ If so, state maximum rate of interest used. _____ % and the aggregate amount of discount. \$ _____
32. During the period covered by this Statement, did (a) any agent, general agent, broker, sales representative, non-affiliated sales service organization, or any combination thereof under common control (other than salaried employees of the company), (b) any sales service organization owned in whole or in part by the company or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of (i) sales of new business? (ii) renewals? ANSWER: (a)(i) _____ (ii) _____ (b)(i) _____ (ii) _____

GENERAL INTERROGATORIES — PART A

33. Ceded Reinsurance Report

SECTION 1. Annual Report of Reinsurance Transactions (including facultative and pooling transactions)

1. What is the maximum amount of return commission which would have been due reinsurers if they or you had cancelled all of your company's reinsurance or if you or a receiver had cancelled all of your company's direct business and reinsurance assumed as of the end of the period covered by this Annual Statement, with the return of the unearned premium reserve? Intercompany pooling agreement: _____, All other reinsurance: _____
Total: _____
2. What would be the amount of the reduction in surplus as shown on this Annual Statement if adjustments were made to reflect the full amount described in Question 1? Intercompany pooling agreement: _____, All other reinsurance: _____
Total: _____
3. On the basis of loss experience to date, have you accrued earned additional premiums which would be payable or return reinsurance commissions which would be refundable in the future if the reinsurer or you cancelled all of your company's reinsurance as of the end of the period covered by this Annual Statement? Answer: _____ If you have not so accrued, what would be the amount of such additional premium or return commission? Intercompany pooling agreement: _____, All other reinsurance: _____
Total: _____
4. What would be the amount of the reduction in surplus as of the end of the period covered by this Annual Statement if adjustments were made to reflect the full amount described in Question 3? Intercompany pooling agreement: _____, All other reinsurance: _____
Total: _____
5. What would be the percentage reduction in surplus as of the end of the period covered by this Annual Statement from the combined effects of the amounts described in Questions 2 and 4? Intercompany pooling agreement: _____, All other reinsurance: _____
Total: _____
6. What is the amount of additional reinsurance premiums, computed at the maximum level provided by the reinsurance contracts, in excess of amounts previously paid and presently accrued (including as accrued the amount shown in response to Question 3) on retrospective adjustment periods covering the most recent three years? Intercompany pooling agreement: _____, All other reinsurance: _____
Total: _____
7. What is the amount of return reinsurance commission, computed at the minimum level provided by the reinsurance contracts, in excess of amounts previously paid and presently accrued (including as accrued the amount shown in response to Question 3) on retrospective adjustment periods covering the most recent three years? Intercompany pooling agreement: _____, All other reinsurance: _____
Total: _____
8. What would be the percentage reduction in surplus as of the end of the period covered by this Annual Statement from the combined effects of the amounts described in Questions 6 and 7? Intercompany pooling agreement: _____, All other reinsurance: _____
Total: _____
9. What would be the percentage reduction in surplus as of the end of the period covered by this Annual Statement from the combined effects of the amounts described in Questions 2, 4, 6 and 7? Intercompany pooling agreement: _____, All other reinsurance: _____
Total: _____

SECTION 2. Supplementary Report of Reinsurance Transactions

Whenever the company enters into a new reinsurance contract or alters the terms of any existing ceded reinsurance contract, during the year following the date of this Annual Statement, it shall answer the questions set forth in Section 1 as of the date of such new or altered contracts. If the answer to Question 5 shows a reduction in the then current surplus of 30% or more, it shall report such fact within 15 days after the date of such new contract or alteration to each Regulatory Authority with which this Annual Statement was filed.

SECTION 3. Requirements for Reinsurance Credit

Whenever the answer to Question 5 shows a reduction in surplus of 30% or more, or whenever the answer to Question 8 shows a reduction in surplus of 50% or more, or whenever the answer to Question 9 shows a reduction in surplus of 60% or more the company shall not take credit for its ceded reinsurance unless:

- A. The company shall file in respect of each reinsurer separately as of the end of each calendar quarter, a statement of balances which shall include cash balances, unearned premium reserves, loss reserves and accruals for retrospective adjustments. Such statement shall be certified by the reinsurer and filed by the company within 45 days after the end of each calendar quarter with each Regulatory Authority with which the Annual Statement is filed; and,
- B. Its reinsurance contract provides that in the event of termination the reinsurer shall continue to be obligated, with respect to business in force, for 90 days or until the earliest date thereafter as of which such original business may be terminated, but in no event more than 12 months; and,
- C. In the event of insolvency of the company, the reinsurer shall be entitled to recoup unearned ceding commission only to the extent that original commissions and taxes are recouped by the company; and,
- D. The company submits all reinsurance contracts in force and thereafter negotiated to each Regulatory Authority with which the Annual Statement is filed; and,
- E. The reinsurance agreements for which credit is claimed by the company contain provisions protecting the company from an element of risk from ultimate underwriting loss; or,
- F. The reduction is attributable to a reinsurance pooling agreement between affiliated companies which has been approved by the insurance regulatory authority in the company's domiciliary state.

Consistent with the purpose of this report, the Regulatory Authority (ies) in appropriate cases may waive one or more of these instructions.

Instructions for Completing Ceded Reinsurance Report

- Question 1. This amount should be computed by applying the fixed or provisional commission rates for each treaty to the unearned premium reserve for each such treaty. For this calculation, it shall be assumed that all reinsurance is entirely cancelled, with return of unearned premium and commission.
 - Question 2. The amount determined in response to Question 1 should be reduced to reflect applicable income taxes and unearned premium reserves ceded to unauthorized companies, if any.
 - Question 3. The amount determined in response to this question should be based on loss experience to date reflecting amounts claimed as reinsurance recoverable on paid and unpaid losses as set forth in Schedule F, Part 1A, Section 1.
 - Question 4. The amount determined in response to Question 3 should be adjusted to reflect applicable income taxes.
 - Question 5. Divide the sum of the answers to Questions 2 and 4 by Surplus As Regards Policyholders as shown on Page 3, Item 27 of this Annual Statement.
- Questions 6 and 7. These instructions apply to retrospective rated contracts and sliding scale commission contracts.
- The amounts below should be computed separately for each retrospective adjustment period which is currently in force or which was in force during the most recent three years:
- (a) In regard to retrospective adjustment periods which commenced within the most recent three years and ended during this period, the amount should be computed at the maximum level provided by the reinsurance contracts less amounts previously paid to reinsurers and less amounts presently accrued (including as accrued the amount shown in response to Question 3).
 - (b) In regard to retrospective adjustment periods which commenced prior to the most recent three years and which ended during this period, the amount should be determined as in (a) above, but should be pro rata reduced for the period of time of the retrospective adjustment period which is prior to the most recent three-year period.
 - (c) In regard to retrospective adjustment periods which commenced within the most recent three years but will end after this period, the amount should be computed at the maximum level provided by the reinsurance contracts on the basis of inception to statement date premium data. Otherwise, with this exception the instructions in (a) above should be followed.
 - (d) In regard to retrospective adjustment periods which commenced prior to the most recent three years and which will and after this period, the amount should be determined at the maximum level provided by the reinsurance contracts on the basis of inception to statement date premium data. This amount should be pro rata reduced for the period of time of the retrospective adjustment period which is prior to the most recent three-year period. Otherwise, with these exceptions the instructions in (a) above should be followed.
- Question 8. Divide the sum of the amounts determined as answers to Questions 6 and 7, less applicable income taxes by Surplus As Regards Policyholders as shown on Page 3, Item 27 of this Annual Statement.
 - Question 9. Divide the sum of the answers to Questions 2, 4, 6 and 7 (adjusted by applicable income taxes) by Surplus As Regards Policyholders as shown on Page 3, Item 27 of this Annual Statement.

GENERAL INTERROGATORIES — PART B

CONTINGENT LIABILITIES

*Report Briefly the Nature of Contingent Liabilities Which May Materially Affect Financial Position or Results of Operations.**

Report the Date Incurred or Discovered, the Nature of the Contingent Liability, Contract, Arrangement or Commitment, the Amount or Amounts, if Known, the Status as of the Annual Statement Date and All Other Information Necessary for a Full Disclosure.

Has the company committed any surplus funds to reserves for contingent liabilities or arrangements mentioned above? ANSWER: . . . If so, has the reserve been reported as a special surplus funds reserve on page three of the annual statement? ANSWER: . . .

Has the company followed instructions for reporting any unreimbursed expenditures on behalf of the company by its parent, its affiliates or subsidiaries? ANSWER: . . .

FEDERAL INCOME TAX ALLOCATION

1. Is the company's federal income tax return consolidated with those of any other entity or entities? ANSWER: . . .
2. If the answer to Question 1 is yes, list the names of the entities with whom the company's federal income tax return is consolidated for the current year.
3. If the company's federal income tax return is consolidated with those of any other entity or entities, does it have a written agreement, approved by its Board of Directors, setting forth the manner in which the total consolidated federal income tax for all entities is allocated to each entity which is a party to the consolidation? ANSWER: . . .
4. If the answer to Question 3 is no, give an explanation why such agreement has not been executed and also describe the method of allocation setting forth the manner in which the company has an enforceable right to recoup federal income taxes in the event of future net losses or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes.
5. If the answer to Question 3 is yes, describe the method of allocation setting forth the manner in which the company has an enforceable right to recoup federal income taxes in the event of future net losses which it may incur or to recoup its net losses carried forward as an offset to future net income.

*Including but not limited to notes receivable discounted, accounts and agents' balances assigned, accommodation paper, lawsuits, additional taxes, guarantees of liabilities of other companies, establishment of compensating balances, long-term contracts and lease agreements, loan take-out agreements and indemnification agreements. Include also deferred expense contracts and arrangements between parents, subsidiaries or affiliates.

Note.—In case the following schedules do not afford sufficient space, companies may furnish them on separate forms, provided the same are upon paper of like size and arrangements and contain the information asked for herein and have the name of the company printed or stamped at the top thereof.

SPECIAL DEPOSIT SCHEDULE

Showing all deposits or investments NOT held for the protection of ALL the policyholders of the Company

(1) WHERE DEPOSITED	(2) DESCRIPTION AND PURPOSE OF DEPOSIT (indicating literal form of registration of Securities)	(3) PAR VALUE	(4) STATEMENT VALUE	(5) MARKET VALUE

SCHEDULE OF ALL OTHER DEPOSITS

Showing all deposits made with any Government, Province, State, District, County, Municipality, Corporation, firm or individual, except those shown in Schedule N, and those shown in "Special Deposit Schedule" above

(1) WHERE DEPOSITED	(2) DESCRIPTION AND PURPOSE OF DEPOSIT (Indicating literal form of registration of Securities)	(3) PAR VALUE	(4) STATEMENT VALUE	(5) MARKET VALUE

ANNUAL STATEMENT FOR THE YEAR 1979 OF THE

SCHEDULE A—Part 1

Showing All Real Estate OWNED December 31 of Current Year, the Cost, Book and Market Value thereof, the Nature and Amount of all Liens and Encumbrances thereon, including Interest Due and Accrued, etc.

Name _____

[illegible]

*Including cost of acquiring title, and, if the property was acquired by foreclosure, such cost shall include the amount expended for taxes, repairs and improvements prior to the date on which the company acquired title

CLASSIFICATION

Showing the total amount of Real Estate owned in each State and Foreign Country

[illegible]

Showing All Real Estate ACQUIRED During the Year and Showing also Amounts Expended for Additions and Permanent Improvements Made During said Year to ALL Real Estate

[illegible]

SCHEDULE A—Part 3
Showing All Real Estate SOLD or Otherwise Disposed of During the Year Including Payments During the Year on "Sales under Contract"

[illegible]

including cost of acquiring title, and, if the property was acquired by foreclosure, such cost shall include the amounts expended for taxes, repairs and improvements prior to the date on which the company acquired title. In reporting sales under contract, include payments received during the current year only. Indicate payments on "Sales under Contracts" in Part 3 by inserting the letter "P" after the number of the parcel.

SCHEDULE A—Verification Between Years

1. Book value, December 31, previous year (Item 4, Col. 1, Exhibit 1, prior year statement)
2. Increase by adjustment:
7. Decrease by adjustment:
- (a) Totals, Part 1.

2. Increase by adjustment:

- | | |
|---|--|
| 3. Cost of acquired, Part 2, Col. 5 | |
| 4. Cost of additions and permanent improvements, Part 2, Col. 6 | |
| 5. Profit on sales, Part 3, Col. 9 | |
| 8. Total | |

ANNUAL STATEMENT FOR THE YEAR 1979 OF THE

SCHEDULE B

Showing all MORTGAGES OWNED December 31 of Current Year, and all Mortgage Loans Made, Increased, Discharged, Reduced or Disposed of During the Year

Indicate by symbols FHA and VA if loans are so insured. All such FHA and VA insured loans not in process of foreclosure may be shown for land and buildings

[illegible]

(A) Including all mortgages "purchased" or otherwise acquired during the year and all increases during the year on loans outstanding December 31 of previous year

CLASSIFICATION

Showing the Total Amount of Mortgage Loans on Real Estate in Each State and Foreign Country

[illegible]

NOTE. Any casualty company having a majority of its premium volume derived from non-cancellable accident and health policies, may report on Schedule B forms of the Life Blank in lieu of this schedule.

SCHEDULE B A - PART 1
Showing Other Invested Assets OWNED December 31, Current Year

*Give detailed description of investment and underlying security (Footnotes may be used to describe leases for each class in the aggregate). Indicate statutory category of investment, i.e., real estate, mortgage security or other. Include in this Schedule, showing subtotals by class and grand total for all classes: (1) All loans on or investments in oil and gas production payments except those listed in Schedule D Part 1, (2) All Transportation Equipment; (3) Timber Deeds; (4) Mineral Rights carried as admitted assets, (5) Motor Vehicle Trust Certificates; (6) Any other class of ASSET/TRA investment not clearly included in other statement schedules

(Include additional investments made, or portion of investment repaid.
 Include depreciation on real estate and transportation equipment, etc., amortization of premium and accrual of discount if applicable.
 After appropriate reduction for interest paid to manufacturer during year and depletion and amortization of mineral rights.
 After appropriate reduction for due and accrued interest payable to manufacturers.

SCHEDULE B A – VERIFICATION BETWEEN YEARS

- | | | |
|----|--|--|
| 1. | Book value of other invested assets (Exhibit 1, Item 7, prior year annual statement) | |
| 2. | Cost of acquisitions during year: | |
| | (a) Column 5, Part 2 | |
| | (b) Column 9, Part 1 | |
| | (c) Column 7, Part 3 | |
| 3. | Increase by adjustment during year: | |
| | (a) Column 10, Part 1 | |
| | (b) Column 8, Part 3 | |
| 4. | Profit on disposition, Column 9, Part 3 | |
| 5. | Total | |

6. Deduct consideration on disposition, Column 5, Part 3.
7. Reductions in investment during year:
 - (a) Column 9, Part 1.
 - (b) Column 7, Part 3.
8. Decrease by adjustment during year:
 - (a) Column 10, Part 1.
 - (b) Column 8, Part 3.
9. Loss on disposition, Column 10, Part 3.
10. Book value of other invested assets, Exhibit 1, Item 7, current year.
(Each payment on account of capital, e.g., depletion and amortization of mineral rights

ANNUAL STATEMENT FOR THE YEAR 1979 OF THE

...

SCHEDULE B A - PART 2

Showing Other Invested Assets ACQUIRED During Current Year

(1)	(2) DATE ACQUIRED	(3) LESSEE OR LOCATION	(4) COST TO COMPANY	(5) CONSIDERATION PAID DURING CURRENT YEAR	(6) NAME OF VENDOR
NUMBER OF UNITS AND DESCRIPTION					
<i>Grand Totals</i>					

SCHEDULE B A - PART 3

Showing Other Invested Assets DISPOSED of During Current Year

[illegible]

Include in this Schedule, showing subtotals by class and grand total for all classes: (1) All loans on or investments in oil and gas production payments except those listed in Schedule D Part 1. (2) All Transportation Equipment. (3) Timber Deeds. (4) Mineral Rights carried as admitted investments. (5) All other investments in real estate. (6) Any other class of ASSETTS investment not readily includable in other statement schedules.

ANNUAL STATEMENT FOR THE YEAR 1979 OF THE

Name

SCHEDULE C — Part 1

Showing All Collateral Loans IN FORCE December 31 of Current Year

[illegible]

SCHEDULE C — Part 2

Showing All Collateral Loans MADE During the Year

[illegible]

ANNUAL STATEMENT FOR THE YEAR 1979 OF THE

Name

SCHEDULE C — Part 3

Showing All Collateral Loans DISCHARGED in Whole or in Part During the Year

[illegible]

SCHEDULE C — Part 4

Showing All Substitutions of Collateral During the Year

[illegible]

SCHEDULE D—SUMMARY BY COUNTRY
Bonds and Stocks OWNED December 31 of Current Year

(1) DESCRIPTION	(2) BOOK VALUE	(3) MARKET VALUE (Excluding accrued interest)	(4) ACTUAL COST (Excluding accrued interest)	(5) PAR VALUE OF BONDS	(6) *AMORTIZED OR INVESTMENT VALUE
BONDS					
1. United States					
2. Canada					
3. Other Countries					
4. Totals					
5. United States					
6. Canada					
7. Other Countries					
8. Totals					
9. United States					
10. Canada					
11. Other Countries					
12. Totals					
13. United States					
14. Canada					
15. Other Countries					
16. Totals					
17. United States					
18. Canada					
19. Other Countries					
20. Totals					
21. United States					
22. Canada					
23. Other Countries					
24. Totals					
25. United States					
26. Canada					
27. Other Countries					
28. Totals					
29. Totals					
30. Total Bonds					
31. United States					
32. Canada					
33. Other Countries					
34. Totals					
35. United States					
36. Canada					
37. Other Countries					
38. Totals					
39. United States					
40. Canada					
41. Other Countries					
42. Totals					
43. United States					
44. Canada					
45. Other Countries					
46. Totals					
47. Totals					
48. Total Preferred Stocks					
49. United States					
50. Canada					
51. Other Countries					
52. Totals					
53. United States					
54. Canada					
55. Other Countries					
56. Totals					
57. United States					
58. Canada					
59. Other Countries					
60. Totals					
61. United States					
62. Canada					
63. Other Countries					
64. Totals					
65. Totals					
66. Total Common Stocks					
67. Total Stocks					
68. Total Bonds and Stocks					

*Statement value for Preferred Stocks: For certain bonds, values other than actual market may appear in this column. (See Schedule D, Part 3, for details). *Companies, societies, and associations which do not amortize their bonds should leave this column blank.
The aggregate value of bonds which are valued at other than actual market is \$

SCHEDULE D—Verification Between Years

- | | |
|--|---|
| <p>1. Book value of bonds and stocks, per Items 1 and 2, Col. 1, Exhibit 1, previous year</p> <p>2. Cost of bonds and stocks acquired, Col. 5, Part 3</p> <p>3. Increase by adjustment in book value:</p> <p> (a) Col. 10, Part 1</p> <p> (b) Col. 9, Part 2, Sec. 1</p> <p> (c) Col. 8, Part 2, Sec. 2</p> <p> (d) Col. 9, Part 4</p> <p>4. Profit on disposal of bonds and stocks, Col. 11, Part 4</p> <p>5. Total</p> | <p>6. Deduct consideration for bonds and stocks disposed of, Col. 5, Part 4</p> <p>7. Decrease by adjustment in book value:</p> <p> (a) Col. 11, Part 1</p> <p> (b) Col. 10, Part 2, Sec. 1</p> <p> (c) Col. 9, Part 2, Sec. 2</p> <p> (d) Col. 10, Part 4</p> <p>8. Loss on disposal of bonds and stocks, Col. 12, Part 4</p> <p>9. Book value of bonds and stocks, per Items 1 and 2, Col. 1, Exhibit 1, current year</p> |
|--|---|

ANNUAL STATEMENT FOR THE YEAR 1979 OF THE

Form 1249

Name

SCHEDULE D — PART 1A

Maturity Distribution of Bonds Owned December 31, Current Year at Statement Values

(1) MATURITY	(2) GOVERNMENTS SCHEDULE D (Group 1)	(3) POLITICAL SUBDIVISIONS, GOVERNMENTAL AGENCIES AND AGENCIES (Groups 2, 3 & 4)	(4) OTHER (Unaffiliated) (Groups 5, 6 & 7)	(5) PARENTS, SUBSIDIARIES AND AFFILIATES (Group 8)	(6) TOTAL BONDS
1. 1 year or less					
2. Over 1 year through 3 years					
3. Over 3 years through 5 years					
4. Over 5 years through 10 years					
5. Over 10 years					
6. Totals					

INSTRUCTIONS:

- (a) Total of Column 6 to agree with Column 16 of Schedule D, Part 1.
- (b) Serial issues and mandatory fixed prepayment obligations valued on an amortizable basis may be distributed based on the par value on each scheduled repayment date and the final installment adjusted for any discount or premium. Such holdings reported at market may be distributed based on market value by applying market rate to each scheduled repayment.
- (c) Bonds with optional prepayment provisions only, and those which provide for redemptions that cannot be predetermined as to amount or date should be distributed based on maturity date, regardless of the date to which bond is being amortized.
- (d) Place all holdings in default as to principal or interest in the "Over 10 Years" category in the absence of definitive information as to final settlement. Perpetual bonds should also be included in this category.
- (e) Consider obligations without maturity date and payable on demand to be due within one year if in good standing. Otherwise, include in the "Over 10 Years" category, or earlier if justifiable.

Bonds to be grouped in the following manner and each group arranged alphabetically.

(The listing in Groups 2, 3 and 4 should be alphabetical by State.)

Form 1249

1. Political Subdivisions of States, Territories and Possessions (direct and guaranteed).
2. States, Territories and Possessions (direct and guaranteed).
3. Political Subdivisions of States, Territories and Possessions (direct and guaranteed).
4. Political Subdivisions of States, Territories and Possessions (direct and guaranteed).
5. Railroads (unaffiliated).
6. Railroads (unaffiliated).
7. Industrial and Miscellaneous (unaffiliated).
8. Parents, Subsidiaries and Affiliates.

ANNUAL STATEMENT FOR THE YEAR 1979 OF THE

SCHEDULE D — Part 1

Show sub-totals for each group.

Showing all BONDS Owned December 31 of Current Year

Supplemental columns for data concerning Amortization.

(1) CUSIP Identification ***	(2) **DESCRIPTION Give complete and accurate description of all bonds owned, including the location of all street railway and miscellaneous companies. If bonds are "serial" issues give amount for each year.	(3) INTEREST		(4) DATE OF		(5) BOOK VALUE	(6) PAR VALUE	(7) Rate Used to Obtain Market Value	(8) MARKET VALUE (including accrued interest)	(9) ACTUAL COST (including accrued interest)	(10) INTEREST		(11) Increase by Adjustment in Book Value During Year	(12) Decrease by Adjustment in Book Value During Year	(13) Amount of Interest due Dec. 31, current year, in default as to principal or interest	(14) NAIC Designation	(15) Year Acquired	(16) Effective Rate of Interest at Which Purchase Price Was Made	(17) Amortized or Accrued Value at Dec. 31 of Current Year	(18) Increase or Decrease in Amortized Value During Year
		Rate of Interest	How Paid	Maturity	Option						(9.1) Amount Due and Accrued on Current Year on bonds not in default	(9.2) Gross Am't Received During Year								

Where amortized value or any value other than the market value published in the NAIC Valuation of Securities Manual is used, insert the NAIC designation for such security printed in the NAIC Valuation of Securities Manual.

Where a bond is payable in a foreign currency the par value and purchase price in that currency should be included as a part of the description.

From entry in the previous year's Annual Statement if owned at that time; from the purchase confirmation (or certificate) if purchased subsequently. Leave blank for private placements.

Perpetual bonds, bonds in default as to principal or interest and bonds not amply secured are to be entered in this column at market value.

Companies which use Amortized Values as "Book Values" may omit entering figures in these columns, and provide the following footnote:

"Insert initial letters of month in which amortization is made."

NOTE.—This supplemental information, required of all companies which amortize their bonds, is not to be used as a substitute for the information required in this preceding column but in addition thereto.

Show 3-year and call price pertaining to option, if any, on which amortization is based. On bonds purchased at a premium, the maturity date or call feature producing lowest amortized value should be used.

[illegible]

*Insert the word "cost" for preferred stocks eligible for stabilization under Section 3 (D) (4) of the NAIC Valuation Procedures. Insert the market value rate for preferred stocks not eligible for stabilization. *****

SCHEDULE D - Part 2 - Section 2
Showing all COMMON STOCKS Owned December 31 of Current Year

[illegible]

NOTES

Complete information must be furnished in connection with any holding of preferred or common stock on the statement date which is optioned or restricted in any way as to its sale by the insurer. Identify all such securities by the symbol "R" to be inserted beside the figure shown as the rate per share to obtain market value

Transferable shares only, of Savings and Loan or Building and Loan Associations, to be reported hereu

***From entry in the previous year's Annual Statement if owned at that time, from the purchase confirmation (or certificate) if purchased subsequently. Leave blank for private placements. Insert the NAIC designation for such security printed in the NAIC Valuation of Securities Manual.

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Form 1249

Bonds, preferred stocks and common stocks to be grouped separately showing sub-totals for each group.

SCHEDULE D — Part 3 Showing all Bonds and Stocks Acquired During Year

Name

(1) CUSIP Identification ***	(2) DATE ACQUIRED*	(3) NAME OF VENDOR*	(4) NO. OF SHARES OF STOCK	(5) ACTUAL COST (Excluding Accrued Interest and Dividends)	(6) PAR VALUE OF BONDS	(7) PAID FOR ACCRUED INTEREST AND DIVIDENDS
(8) DESCRIPTORS Give complete and accurate description of each bond and stock, including location of all street railway, bank, trust and miscellaneous companies.††						

*The items with reference to each issue of bonds and stocks acquired at public offerings may be totaled in one line and the word "Various" inserted in Column 2 and 3. ††If bonds are serial issues give amounts maturing each year.

ANNUAL STATEMENT FOR THE YEAR 1979 OF THE

Name _____

SCHEDULE D – Part 4

Bonds, preferred stocks and common stocks to be grouped separately showing sub-totals for each group.

Showing all Bonds and Stocks Sold, REDEEMED or Otherwise DISPOSED OF During Year

[illegible]

†Enter as a summary item the totals of Columns 6 to 14 of Part 5. All bonds and stocks acquired from entry in the previous year's Annual Statement if owned at that time, from the purchase confirmation (or certificate) if purchased subsequently. Leave blank for private placements.

art.

*Companies may at their option summarize all bonds of the same issue called, matured or redeemed during the year and omit disposal dates including accrued interest and dividends on bonds and stocks disposed of. If bonds are serial issues give amounts maturing each year.

ANNUAL STATEMENT FOR THE YEAR 1979 OF THE

Bonds, preferred stocks and common stocks to be grouped separately showing sub-totals for each group

SCHEDULE D—Part 5

Showing all Bonds and Stocks ACQUIRED During the Current Year and Fully DISPOSED OF During the Current Year

34

(1) CUSIP Identification No.	(2) DESCRIPTION Give complete and accurate description of each bond and stock, including location of all street railway, bank, trust and miscellaneous companies, if	(3) NAME OF VENDOR*	(4) DISPOSAL DATE**	(5) NAME OF PURCHASER (If matured or called under redemption option, so state date and price at which called)	(6) PAR VALUE (BONDS) OR NUMBER OF SHARES (STOCKS)	(7) COST TO COMPANY (Excluding Accrued Interest and Dividends)	(8) CONSIDERATION (Including Accrued Interest and Dividends)	(9) BOOK VALUE AT DISPOSAL DATE	(10) INCREASE BY ADJUSTMENT IN BOOK VALUE DURING YEAR	(11) DECREASE BY ADJUSTMENT IN BOOK VALUE DURING YEAR	(12) PROFIT ON DISPOSAL	(13) LOSS ON DISPOSAL	(14) INTEREST AND DIVIDENDS RECEIVED DURING YEAR	(15) PAID FOR ACCRUED INTEREST AND DIVIDENDS

*The items with reference to each issue of bonds and stocks acquired at public offerings may be listed in one line and the word "Various" inserted in Columns 2 and 3.

**Companies may at their option summarize all bonds of the same issue called, matured or redeemed during the year and omit disposal dates.

***From entry in the previous year's Annual Statement, if owned at that time; from the purchase confirmation (or certificate) if purchased subsequently. Leave blank for private placements.

††If bonds are serial issues give amounts maturing each year. ††If bonds are serial issues give amounts maturing each year.

SCHEDULE D—Part 6—Section 1

Questionnaire Relating to the Valuation of Shares of Certain Subsidiary, Controlled or Affiliated Companies

(1) Name of Subsidiary, Controlled or Affiliated Company	(2) Do Insurer's Admitted Assets Include Intan- gible Assets Connected with Holding of Such Company's Stock?	(3) If Yes, Amount of Such Intangible Assets	(4) Common Stock of Such Company Owned by Insurer on Statement Date	
			(4) No. of Shares	(5) % of Outstanding
	<i>Total</i>		X X X X	X X X X

Amount of Insurer's Capital and Surplus (Page 3, Item 27 of previous year's statement filed by the insurer with its domiciliary insurance department) \$

SCHEDULE D—Part 6—Section 2

(1) Name of Lower-tier Company	(2) Name of Company Listed in Section 1 which controls Lower-tier Company	(3) Amount of Intangible Assets Included in Amount Shown in Column (3), Section 1	Common Stock of Lower-tier Company Owned Indirectly by Insurer on Statement Date	
			(4) No. of Shares	(5) % of Outstanding

Instructions:

SECTION 1

Column (1): List each subsidiary, controlled or affiliated company, securities of which are directly owned by an insurer (SCA Company) for which a Form SUB filing is required under Section 4 (B) of the NAIC Valuation Procedures, and which SCA Company was acquired through purchase or formation, or to which purchased assets have been transferred.

Column (2): State whether the admitted assets shown by the insurer in this statement include, through the carrying value of common stock of the SCA Company valued under Section 4 (B) of the NAIC Valuation Procedures, intangible assets arising out of the purchase of such common stock by the insurer or the purchase by the SCA Company of common stock of a lower-tier company controlled by the SCA Company. For purposes of this questionnaire, intangible assets at purchase shall be defined as the excess of the purchase price over the tangible net worth (total assets less intangible assets and total liabilities) represented by such shares, as recorded immediately prior to the date of purchase on the books of the company whose stock was purchased.

Column (3). If the answer in Column (2) is "Yes," give the amount of intangible assets involved. The intangible assets shown for the SCA Company must include any intangible assets which are included in the consolidated financial statements of one or more lower tier companies controlled by the SCA Company. In all cases the current intangible assets equal the intangible assets at purchase, as defined above, minus any write-off thereof between the date of purchase and the statement date. If the answer in Column (2) is "No," state "N/A" in Column (3).

Columns (4) and (5): State the number of shares of common stock of the SCA Company owned by the insurer on the statement date, and the percent owned of the outstanding shares of the same class.

SECTION 2

Column (1): List each company which is controlled by an SCA Company by means of a holding of a control block of the outstanding common stock, either directly or through one or more intervening companies which are also so controlled. Do not include companies which are themselves SCA Companies listed in Section 1.

Column (2): If more than one SCA Company controls the lower-tier company, list each such SCA Company and complete Columns (3)–(5) separately for each.

Column (3): As explained in the Instructions for Section 1, this amount is based on the intangible assets at purchase of the stock of the lower-tier company, reduced by any subsequent write-off. The amount shown is also based on the proportionate ownership of the lower-tier company by the reporting insurer.

Columns (4) and (5). These figures represent the proportionate ownership by the reporting insurer through the particular SCA Company.

Showing Options in Force December 31st of Current Year

36

[illegible]

Showing Options Issued During the Current Year

[illegible]

XX Did Company own underlying stock at time option was sold? Answer "no" where appropriate, leave blank otherwise.

Stocks to be grouped in the following order and each group arranged alphabetically:

Railroads
Public Utilities
Banks, Trust and Insurance Companies
Industrial and Miscellaneous

SCHEDULE D – PART 7 – SECTION 3

Showing Options Exercised During the Current Year

(1)		(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
CUSIP Identification*	DESCRIPTION	NO OF SHARES EXERCISED	XX	DATE ISSUED**	DATE EXERCISED**	BOOK VALUE OF SHARES AT EXERCISE	CONSIDERATION FOR OPTIONS EXERCISED	CONSIDERATION ON SALE OF STOCK	PROFIT ON SALE (Including Reserved for Options)	LOSS ON SALE (Including Reserved for Options)
	Give complete description of security									
	<i>Totals</i>	XXX		XXX	XXX					

SCHEDULE D – PART 7 – SECTION 4

Showing Options Terminated by Closing Purchase Transactions During Current Year

(1) DESCRIPTION		(2)	(3)	(4)	(5)	(6)	(7)	(8)
CUSIP Identification*	Give complete description of security		DATE OPTIONS SOLD**	CONSIDERATION FOR SALE OF OPTIONS	NO. OF OPTIONED SHARES TERMINATED	DATE OPTIONS TERMINATED**	COST OF TERMINATING OPTIONS	NET GAIN OR LOSS TO INVESTOR INCOME COLS. (4)-(7)
		XX						
	<i>Totals</i>		XXX					

From entry in the previous year's Annual Statement if owned at that time; from the purchase confirmation (or certificate) if purchased subsequently. Leave blank for private placements.

XX Did Company own underlying stock at time option was sold? Answer "no" where appropriate, leave blank otherwise.

••Companies may at their option summarize all options of the same stock which have the same expiration date and exercise price.

Give complete description of security

SHARES EXPIRED

3

EXPIRED

**SALE OF OPTIONS
EXPIRED**

Totals

From entry in the previous year's Annual Statement if owned at that time, from the purchase confirmation (or certificate) if purchased subsequently. Leave blank for private placements.

XXX Did Company own underlying stock at time option was sold? Answer "no" where appropriate, leave blank otherwise.

SCHEDULE D—PART 7—RECAPITULATION

	CONSIDERATION FOR OPTIONS
1. Options in force 12/31 of Previous Year	
2. Options issued Current Year	
3. Total (Line 1 plus Line 2)	
4. Options exercised Current Year	
5. Options expired Current Year	
6. Options terminated by purchase Current Year	
7. Total (Line 4 plus Line 5 plus Line 6)	
8. Options in force 12/31 Current Year (Line 3 minus Line 7)	

SCHEDULE F—Part 1A—Section 1
Ceded Reinsurance as of December 31, Current Year

NAME OF REINSURER*	LOCATION**	(1) REINSURANCE RECOVERABLE ON PAID LOSSES	(2) REINSURANCE RECOVERABLE ON UNPAID LOSSES	(3) PREMIUMS IN FORCE	(4) UNEARNED PREMIUMS (Estimated)
Affiliates:					
	<i>Totals—Affiliates</i>				
Non-affiliates:					
	<i>Totals—Non-affiliates</i>				
	<i>Grand Totals</i>				

SCHEDULE F—Part 1A—Section 2
Assumed Reinsurance as of December 31, Current Year
(To be filed not later than April 1)

NAME OF REINSURED*	LOCATION**	(1) REINSURANCE PAYABLE ON PAID LOSSES	(2) REINSURANCE PAYABLE ON UNPAID LOSSES	(3) UNEARNED PREMIUMS (Estimated)
Affiliates:				
	<i>Totals—Affiliates</i>			
Non-affiliates:				
	<i>Totals—Non-affiliates</i>			
	<i>Grand Totals</i>			

SCHEDULE F—Part 1B

Portfolio Reinsurance Effected or Cancelled (-) during Current Year

NAME OF COMPANY	(1) DATE OF CONTRACT	(2) AMOUNT OF ORIGINAL PREMIUMS	(3) AMOUNT OF REINSURANCE PREMIUMS
(a) Reinsurance Ceded			
<i>Total Reinsurance Ceded by Portfolio</i>			
(b) Reinsurance Assumed			
<i>Total Reinsurance Assumed by Portfolio</i>			

SCHEDULE F—Part 2

Funds Withheld on Account of Reinsurance in Unauthorized Companies as of December 31, Current Year

NAME OF REINSURER	(1) UNEARNED PREMIUMS (Debit)	(2) PAID AND UNPAID LOSSES RECOVERABLE (Debit)	(3) TOTAL (1) + (2)	(4) DEPOSITS BY AND FUNDS WITHHELD FROM REINSURERS (Credit)	(5) MISCELLANEOUS BALANCES (Credit)	(6) SUM OF (4) + (5) BUT NOT IN EXCESS OF (3)
<i>Totals</i>						

NOTES: Total of Column (6) to agree with deduction taken in Item 15, Page 3.
Securities held on deposit shall be valued in accordance with N A I C valuations.

Letters of credit are to be included in Column (4) and indicated by an asterisk (*). Letters of credit are not to be included in assets or liabilities on Pages 2 or 3 or supporting pages or exhibits.

SCHEDULE G

Showing Net Losses Paid on Fidelity and Surety claims that were undisposed of December 31st of the following years, as compared with Estimated Liability per Annual Statement of the respective years and at end of Current Year.

(1) NET LOSSES UNPAID DECEMBER 31ST PER ANNUAL STATEMENT FOR EACH OF THE FOLLOWING YEARS (EXCLUDE RESERVES FOR CLAIMS INCURRED BUT NOT REPORTED) VIZ.		(2)	(3) TOTAL AMOUNT PAID TO DATE SINCE DECEMBER 31 OF YEAR IN COLUMN (1)	(4) ESTIMATED LIABILITY DECEMBER 31ST CURRENT YEAR	(5) TOTAL (3) + (4)	(6) INCREASE OR (—) DECREASE ESTIMATED LIABILITY (5) — (2)
1972	FIDELITY SURETY					
1973	FIDELITY SURETY					
1974	FIDELITY SURETY					
1975	FIDELITY SURETY					
1976	FIDELITY SURETY					
1977	FIDELITY SURETY					
1978	FIDELITY SURETY					

SCHEDULE K

Computation of Excess of Statutory Reserve over Statement Reserves — Credit

1. Net unpaid losses on policies expired prior to October 1, current year	
2. Reserve for losses on policies expired in October, November and December, current year:	
(a) Net premiums written on such policies	
(b) 50% of (a)	
(c) Net losses paid under such policies	
(d) Difference (b) — (c)	
(e) Net losses unpaid under such policies	
(f) Difference (d) — (e), show zero if negative	
3. Reserve for accrued losses on policies in force December 31, current year:	
(a) Net premiums earned under such policies	
(b) 50% of (a)	
(c) Net losses paid under such policies	
(d) Difference (b) — (c)	
(e) Net losses unpaid under such policies	
(f) Difference (d) — (e), show zero if negative	
4. Excess of Statutory Reserve over Statement Reserves 2(f) + 3(f)	

Note: Sum of 1 + 2(e) + 3(e) should equal Page 10, Column 5, Item 28.

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SCHEDULE H - ACCIDENT AND HEALTH EXHIBIT

Name

	(1) TOTAL		(2) GROUP ACCIDENT AND HEALTH		(3) CREDIT* (Group and Individual)		(4) COLLECTIVELY RENEWABLE		(5) NON CANCELLABLE		(6) GUARANTEED RENEWABLE		(7) NON-RENEWABLE FOR STATED REASONS ONLY		(8) OTHER ACCIDENT ONLY		(9) ALL OTHER	
	Amount	%†	Amount	%†	Amount	%†	Amount	%†	Amount	%†	Amount	%†	Amount	%†	Amount	%†	Amount	%†

PART 1. ANALYSIS OF UNDERWRITING OPERATIONS

1. Premiums written																		
2. Premiums earned (see note b)																		
3. Incurred claims																		
4. Increase in policy reserves																		
5. Commissions*																		
6. General insurance expenses																		
7. Taxes, licenses and fees																		
8. Total expenses incurred																		
9. Gain from underwriting before dividends to policyholders																		
10. Dividends to policyholders																		
11. Gain from underwriting & after dividends to policyholders																		

PART 2. RESERVES AND LIABILITIES

A. PREMIUM RESERVES:																		
1. Unearned premiums																		
2. Advance premiums																		
3. Reserve for reinsurance																		
4. Total premium reserves, current year																		
5. Total premium reserves, previous year																		
6. Increase in total premium reserves																		
B. POLICY RESERVES:																		
1. Additional reserves																		
2. Reserve for future contingent benefits (not included in "unearned and advance premiums")**																		
3. Total policy reserves, current year																		
4. Total policy reserves, previous year																		
5. Increase in policy reserves																		
C. CLAIM RESERVES AND LIABILITIES:																		
1. Total current year																		
2. Total previous year																		
3. Increase																		

PART 3. TEST OF PREVIOUS YEAR'S CLAIM RESERVES AND LIABILITIES

1. CLAIMS PAID DURING THE YEAR:																		
a. On claims incurred prior to current year																		
b. On claims incurred during current year																		
2. CLAIM RESERVES AND LIABILITIES, DEC. 31, CURRENT YEAR:																		
a. On claims incurred prior to current year																		
b. On claims incurred during current year																		
3. TEST:																		
a. Line 1a and 2a																		
b. Line 1b and 2b																		
c. Line 1 minus Line 2																		

PART 4. REINSURANCE

A. REINSURANCE ASSUMED:																		
1. Premiums written																		
2. Premiums earned (see note b)																		
3. Incurred claims																		
4. Commissions																		
B. REINSURANCE CEDED:																		
1. Premiums written																		
2. Premiums earned (see note b)																		
3. Incurred claims																		
4. Commissions																		

* Business not exceeding 120 months duration.

† In each column of Part 1, show the percentage of Line 2 for Lines 3 through 11 inclusive.

* Includes \$ reported as "Policy, membership and other fees retained by agents."

** If not included in claim reserves.

(b) Premiums earned are before adjustment for the increase in policy reserves which has been treated as a separate deduction.

SCHEDULE N

Showing all Banks, Trust Companies, Savings and Loan and Building and Loan Associations in which deposits were maintained by the company at any time during the year and the balances, if any (according to Company's records) on December 31, of the current year. Exclude balances represented by a negotiable instrument.

(1) DEPOSITORY* (Give Full Name and Location. State if depository is a parent, subsidiary or affiliate.) Show rate of interest and maturity date in the case of certificates of deposit or time deposits maturing more than one year from statement date.	(2) AMOUNT OF INTEREST RECEIVED DURING YEAR	(3) AMOUNT OF INTEREST ACCRUED DECEMBER 31 OF CURRENT YEAR	(4) BALANCE
OPEN DEPOSITORIES			
Totals—Open Depositories			
SUSPENDED DEPOSITORIES			
Totals—Suspended Depositories			
Grand Totals—All Depositories			
TOTALS OF DEPOSITORY BALANCES ON THE LAST DAY OF EACH MONTH DURING THE CURRENT YEAR			
JANUARY	APRIL	JULY	OCTOBER
FEBRUARY	MAY	AUGUST	NOVEMBER
MARCH	JUNE	SEPTEMBER	DECEMBER

*In each case where the depository is not incorporated and subject to governmental supervision, the word "PRIVATE" in capitals and in parentheses, thus—(PRIVATE), should be inserted to the left of the name of the depository. Any deposit in a suspended depository which is taken (credit for) should have a star placed opposite the amount in the schedule.

Deposits in federally insured depositories not exceeding the insured amount may be combined and reported opposite the caption "Deposits in (insert number) depositories which do not exceed the Federally insured amount in any one depository."

Negotiable certificates of deposit to be reported in Schedule D.

(000 omitted)

b) Fidelity and Surety reserves obtained from Column 3 Lines 23 and 24, Part 3A.

(000 omitted)

*Business not exceeding 120 months duration.

ANNUAL STATEMENT FOR THE YEAR 1979 OF THE

Name

SCHEDULE O—PART 3—SUMMARY—LOSS AND LOSS EXPENSE

(000 omitted)

(1) Years in Which Premiums Were Earned and Losses Were Incurred	(2) Premiums Earned	(3) Loss Payments (b)	(4a) Salvage Received (c)	(d) LOSS EXPENSE PAYMENTS			(6) Loss and Loss Expense Payments (Excluding Salvage Received) (3 + 4 + 5)	(7) Ratio 6 ÷ 2 %	(8) Losses Unpaid	(9) Loss Expense Unpaid	(10) Total Losses and Loss Expense Incurred (Excluding Salvage Received) (6 + 9 + 10)	(11) Ratio 11 ÷ 2 %
				(4) Allocated	(4a) Ratio 4 ÷ 3 %	(5) Unallocated	(5a) Ratio 5 ÷ 3 %					
1 Prior to 1975												
2 1975												
3 1976												
4 1977												
5 1978												
6 1979												
7 TOTALS												

(1b) Include amounts reportable in Columns 2, 3 and 4 of Schedule O—Part 1. (For lines other than current year, amounts reported herein should include loss payments made in prior years as well as loss payments made in current year.)

(1c) Include amounts reportable in Columns 5, 6 and 7 of Schedule O—Part 1. (For lines other than current year, amounts reported herein should include salvage received in prior years as well as salvage received in current year.)

(1d) The unallocated loss expense payments paid during the most recent calendar year should be distributed to the various years in which losses were incurred as follows: (1) 49% to the most recent year (2) 5% to the next most recent year and (3) the balance to all years, including the most recent in proportion to the amount of loss payments paid for each year during the most recent calendar year. If the distribution in (1) or (2) produces an accumulated distribution to surplus in excess of 10% of the premiums earned for such year, decreasing all distributions made under (1), such accumulated distributions should be limited to 10% of premiums earned and the balance distributed in accordance with (3). Are they so reported in this statement? ANSWER

(d) The term "loss expense" includes all payments for legal expenses, including attorney's and witness fees and court costs, salaries and expenses of investigators, adjusters and field men, rents, stationery, telegraph and telephone charges, postage, salaries and expenses of office employees, home office expenses and all other payments under or on account of such losses, whether the payments are allocated to specific claims or are unallocated. Are they so reported in this statement? ANSWER

NOTE: See instructions.

SCHEDULE P—PART 1—SUMMARY

[illegible]

SCHEDULE P—PART 1A—AUTO LIABILITY†

[illegible]

COMPUTATION OF EXCESS OF STATUTORY RESERVE OVER STATEMENT RESERVES - AUTO LIABILITY

	1977 \$	1978 \$	1979 \$	Total \$	Calculation Method—	% of Column 2, less Column 11, if negative enter zero. See Note a.
SCHEDULE P—PART 1B—OTHER LIABILITY						
1. Other liability						
2. Other liability						
3. Other liability						
4. Other liability						
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98. Other liability						
99. Other liability						
100. Other liability						

SCHEDULE P—PART 1B—OTHER LIABILITY†

[illegible]

COMPUTATION OF EXCESS OF STATUTORY RESERVE OVER STATEMENT RESERVES - OTHER LIABILITY

1979 \$	1978 \$	1977 \$	Total	% of Column 2, less Column 11, if negative enter zero. See Note a.	Calculation Method—
See Schedule P—Part 1F for foodstuffs					

See Schedule P - Part 1F for footnotes

ANNUAL STATEMENT FOR THE YEAR 1979 OF THE

Form 2

Name

SCHEDULE P - PART 1C - MEDICAL MALPRACTICE

(1) Years in Which Premiums Were Earned and Losses Were Incurred	(2) Premiums Earned	(3) Loss Payments	(d) LOSS EXPENSE PAYMENTS			(6) Loss and Loss Expense Payments (8 + 4 + 5)	(7) Ratio 6 ÷ 2 %	(8) Number of Claims Outstanding	(9) (f) Losses Unpaid	(10) (d) Loss Expense Unpaid	(11) Total Losses and Loss Expense Incurred (6 + 9 + 10)	(12) Ratio 11 ÷ 2 %
			(4) Allocated	(5) (g) Unallocated	(6a) Ratio 6 ÷ 3 %							
1 Prior to 1975												
2 1975												
3 1976												
4 1977												
5 1978												
6 1979												
7 TOTALS												X X X

COMPUTATION OF EXCESS OF STATUTORY RESERVE OVER STATEMENT RESERVES - MEDICAL MALPRACTICE

% of Column 2, less Column 11, if negative enter zero. See Note a.

Calculation Method

Total \$

1977 \$

1978 \$

1979 \$

SCHEDULE P - PART 1D - WORKMEN'S COMPENSATION

1 Prior to 1972												
2 1972												
3 1973												
4 1974												
5 1975												
6 1976												
7 1977												
8 1978												
9 1979												
10 TOTALS												X X X

COMPUTATION OF EXCESS OF STATUTORY RESERVE OVER STATEMENT RESERVES - WORKMEN'S COMPENSATION

% of Column 2, less Column 11, if negative enter zero. See Note a.

Calculation Method

Total \$

1977 \$

1978 \$

1979 \$

SCHEDULE P - PART 1E - FARMOWNERS MULTIPLE PERIL, HOMEOWNERS MULTIPLE PERIL, COMMERCIAL MULTIPLE PERIL, OCEAN MARINE, AIRCRAFT (ALL PERILS) AND BOILER AND MACHINERY

1 Prior to 1973												
2 1973												
3 1974												
4 1975												
5 1976												
6 1977												
7 1978												
8 1979												
9 TOTALS												X X X

See Schedule P - Part 1F for footnotes

ANNUAL STATEMENT FOR THE YEAR 1979 OF THE

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Form 2

Name

SCHEDULE P - PART 1F - INCURRED BUT NOT REPORTED LOSSES

(1) Years in Which Losses Were Incurred	(b) INCURRED BUT NOT REPORTED LOSSES UNPAID INCLUDED IN COLUMN 9 OF:					(1) ONE YEAR DEVELOPMENT OF IBNR LOSSES INCLUDED IN COLUMNS 3 AND 9 OF:				
	(2) Part 1A	(3) Part 1B	(4) Part 1C	(5) Part 1D	(6) Part 1E	(7) Part 1A	(8) Part 1B	(9) Part 1C	(10) Part 1D	(11) Part 1E
1 Prior to 1972										
2 1972										
3 1973										
4 1974										
5 1975										
6 1976										
7 1977										
8 1978						X X X X	X X X X	X X X X	X X X X	X X X X
9 1979										
10 Totals										

Footnotes

(a) The percentage to be used is based on the company's actual loss ratio in the five years immediately prior to the most recent three, provided that at least one of the five years have at least \$1 million in Column 2. Use the lowest ratio in Column 2 for these years using only years which have at least \$1 million in Column 2. If the lowest qualifying ratio is less than 60%, then use 60%; (65% for Workmen's Compensation; 60% for Workmen's Compensation; 65% for Workmen's Compensation; 60% for Workmen's Compensation). Round percentage to nearest tenth of one per cent. Indicate percentage used.

(d) The term "loss expense" includes all payments for legal expenses, including attorney's and witness fees and court costs, salaries and expenses of investigators, adjusters and field men, rents, stationery, telephone and telegraph charges, postage and express charges, and other expenses of office employees, home office expenses and all other payments under or on account of such injuries, whether the payments are allocated to specific claims or are unallocated. Are they so reported in this statement? Answer

(f) State maximum rate of interest used in determining present value of future workmen's compensation payments

NOTE: See instructions

(g) The unallocated loss expense payments paid during the most recent calendar year should be distributed to the various years in which losses were incurred as follows: (1) 40% to the most recent year; (2) 5% to the next most recent year; and (3) the balance to all years including the most recent, in proportion to the amount of loss payments paid for each year during the most recent calendar year. If the distribution in (1) or (2) results in a negative number, such accumulated distribution to such year in excess of 10% of the premiums earned for such year, disregarding all distributions made in previous years, should be reported in this statement? Answer

(h) Totals on Line 10 to agree with the reserve shown on Page 10, Columns 4a + 4b of this statement. The IBNR reserve estimates in Columns 2 through 6 should be sufficient to cover claims which may be reopened in future periods.

(i) Include payments and reserves in respect to losses incurred more than one year prior to the date of this statement and reported during the current year.

*Includes only Bodily Injury Liability prior to 1971

SCHEDULE P—PART 2—SUMMARY

(1) Years in Which Losses Were Incurred	INCURRED LOSSES AND LOSS EXPENSE REPORTED AT END OF YEAR (000 OMITTED)						INCURRED LOSS AND LOSS EXPENSE RATIO REPORTED					
	(2) 1974	(3) 1975	(4) 1976	(5) 1977	(6) 1978	(7) 1979	(8) 1974	(9) 1975	(10) 1976	(11) 1977	(12) 1978	(13) 1979
1 Prior to 1974	(a)						X X X	X X X	X X X	X X X	X X X	X X X
2 1974	(a)											
3 Cumulative Total	(a)						X X X	X X X	X X X	X X X	X X X	X X X
4 1975	X X X						X X X					
5 Cumulative Total	X X X						X X X	X X X	X X X	X X X	X X X	X X X
6 1976	X X X	X X X					X X X	X X X				
7 Cumulative Total	X X X	X X X					X X X	X X X	X X X	X X X	X X X	X X X
8 1977	X X X	X X X	X X X				X X X	X X X	X X X			
9 Cumulative Total	X X X	X X X	X X X				X X X	X X X	X X X	X X X	X X X	X X X
10 1978	X X X	X X X	X X X	X X X			X X X	X X X	X X X	X X X		
11 Cumulative Total	X X X	X X X	X X X	X X X			X X X	X X X	X X X	X X X	X X X	X X X
12 1979	X X X	X X X	X X X	X X X	X X X		X X X	X X X	X X X	X X X	X X X	

SCHEDULE P—PART 2A—AUTO LIABILITY

1 Prior to 1974							X X X	X X X	X X X	X X X	X X X	X X X
2 1974												
3 Cumulative Total							X X X	X X X	X X X	X X X	X X X	X X X
4 1975	X X X						X X X					
5 Cumulative Total	X X X						X X X	X X X	X X X	X X X	X X X	X X X
6 1976	X X X	X X X					X X X	X X X				
7 Cumulative Total	X X X	X X X					X X X	X X X	X X X	X X X	X X X	X X X
8 1977	X X X	X X X	X X X				X X X	X X X	X X X			
9 Cumulative Total	X X X	X X X	X X X				X X X	X X X	X X X	X X X	X X X	X X X
10 1978	X X X	X X X	X X X	X X X			X X X	X X X	X X X	X X X		
11 Cumulative Total	X X X	X X X	X X X	X X X			X X X	X X X	X X X	X X X	X X X	X X X
12 1979	X X X	X X X	X X X	X X X	X X X		X X X	X X X	X X X	X X X	X X X	

SCHEDULE P—PART 2B—OTHER LIABILITY

1 Prior to 1974							X X X	X X X	X X X	X X X	X X X	X X X
2 1974												
3 Cumulative Total							X X X	X X X	X X X	X X X	X X X	X X X
4 1975	X X X						X X X					
5 Cumulative Total	X X X						X X X	X X X	X X X	X X X	X X X	X X X
6 1976	X X X	X X X					X X X	X X X				
7 Cumulative Total	X X X	X X X					X X X	X X X	X X X	X X X	X X X	X X X
8 1977	X X X	X X X	X X X				X X X	X X X	X X X			
9 Cumulative Total	X X X	X X X	X X X				X X X	X X X	X X X	X X X	X X X	X X X
10 1978	X X X	X X X	X X X	X X X			X X X	X X X	X X X	X X X		
11 Cumulative Total	X X X	X X X	X X X	X X X			X X X	X X X	X X X	X X X	X X X	X X X
12 1979	X X X	X X X	X X X	X X X	X X X		X X X	X X X	X X X	X X X	X X X	

SCHEDULE P—PART 2C—MEDICAL MALPRACTICE

1 Prior to 1974	(a)						X X X	X X X	X X X	X X X	X X X	X X X
2 1974	(a)											
3 Cumulative Total	(a)						X X X	X X X	X X X	X X X	X X X	X X X
4 1975	X X X						X X X					
5 Cumulative Total	X X X						X X X	X X X	X X X	X X X	X X X	X X X
6 1976	X X X	X X X					X X X	X X X				
7 Cumulative Total	X X X	X X X					X X X	X X X	X X X	X X X	X X X	X X X
8 1977	X X X	X X X	X X X				X X X	X X X	X X X			
9 Cumulative Total	X X X	X X X	X X X				X X X	X X X	X X X	X X X	X X X	X X X
10 1978	X X X	X X X	X X X	X X X			X X X	X X X	X X X	X X X		
11 Cumulative Total	X X X	X X X	X X X	X X X			X X X	X X X	X X X	X X X	X X X	X X X
12 1979	X X X	X X X	X X X	X X X	X X X		X X X	X X X	X X X	X X X	X X X	

See Schedule P—Part 2E for footnotes.

SCHEDULE P - PART 2D - WORKMEN'S COMPENSATION

(1) Years in Which Losses Were Incurred	INCURRED LOSSES AND LOSS EXPENSE REPORTED AT END OF YEAR (000 OMITTED)						INCURRED LOSS AND LOSS EXPENSE RATIO REPORTED					
	(2) 1974	(3) 1975	(4) 1976	(5) 1977	(6) 1978	(7) 1979	(8) 1974	(9) 1975	(10) 1976 *	(11) 1977	(12) 1978	(13) 1979
1 Prior to 1974							X X X	X X X	X X X	X X X	X X X	X X X
2 1974												
3 Cumulative Total							X X X	X X X	X X X	X X X	X X X	X X X
4 1975	X X X						X X X					
5 Cumulative Total	X X X						X X X	X X X	X X X	X X X	X X X	X X X
6 1976	X X X	X X X					X X X	X X X				
7 Cumulative Total	X X X	X X X					X X X	X X X	X X X	X X X	X X X	X X X
8 1977	X X X	X X X	X X X				X X X	X X X	X X X			
9 Cumulative Total	X X X	X X X	X X X				X X X	X X X	X X X	X X X	X X X	X X X
10 1978	X X X	X X X	X X X	X X X			X X X	X X X	X X X	X X X		
11 Cumulative Total	X X X	X X X	X X X	X X X			X X X	X X X	X X X	X X X	X X X	X X X
12 1979	X X X	X X X	X X X	X X X	X X X		X X X	X X X	X X X	X X X	X X X	

SCHEDULE P - PART 2E - FARMOWNERS MULTIPLE PERIL,
HOMEOWNERS MULTIPLE PERIL, COMMERCIAL MULTIPLE PERIL,
OCEAN MARINE, AIRCRAFT (ALL PERILS) AND BOILER AND MACHINERY

1 Prior to 1974							X X X	X X X	X X X	X X X	X X X	X X X
2 1974												
3 Cumulative Total							X X X	X X X	X X X	X X X	X X X	X X X
4 1975	X X X						X X X					
5 Cumulative Total	X X X						X X X	X X X	X X X	X X X	X X X	X X X
6 1976	X X X	X X X					X X X	X X X				
7 Cumulative Total	X X X	X X X					X X X	X X X	X X X	X X X	X X X	X X X
8 1977	X X X	X X X	X X X				X X X	X X X	X X X			
9 Cumulative Total	X X X	X X X	X X X				X X X	X X X	X X X	X X X	X X X	X X X
10 1978	X X X	X X X	X X X	X X X			X X X	X X X	X X X	X X X		
11 Cumulative Total	X X X	X X X	X X X	X X X			X X X	X X X	X X X	X X X	X X X	X X X
12 1979	X X X	X X X	X X X	X X X	X X X		X X X	X X X	X X X	X X X	X X X	

(a) Completion of this data is optional

SCHEDULE P—PART 3—SUMMARY

Calendar Year Premiums Earned, Accident Year Loss and Loss Expense Incurred

	DOLLARS (000 omitted)							PERCENTAGES						
	(1) 1973 (a)	(2) 1974 (a)	(3) 1975	(4) 1976	(5) 1977	(6) 1978	(7) 1979	(8) 1973 (a)	(9) 1974 (a)	(10) 1975	(11) 1976	(12) 1977	(13) 1978	(14) 1979
	Summary Data from Schedule P—Part 1—Summary													
1 Premiums Earned								100.0	100.0	100.0	100.0	100.0	100.0	100.0
2 Loss & Loss Exp. Inc'd														
	Loss & Loss Expense through 1 year													
3 Paid														
4 Reserve (2)—(3)														
	Loss & Loss Expense through 2 years													
5 Paid							X X							X X
6 Reserve (2)—(5)							X X							X X
	Loss & Loss Expense through 3 years													
7 Paid						X X	X X						X X	X X
8 Reserve (2)—(7)						X X	X X						X X	X X
	Loss & Loss Expense through 4 years													
9 Paid					X X	X X	X X					X X	X X	X X
10 Reserve (2)—(9)					X X	X X	X X					X X	X X	X X
	Loss & Loss Expense through 5 years													
11 Paid				X X	X X	X X	X X				X X	X X	X X	X X
12 Reserve (2)—(11)				X X	X X	X X	X X				X X	X X	X X	X X

SCHEDULE P—PART 3A—AUTO LIABILITY

Calendar Year Premiums Earned, Accident Year Loss and Loss Expense Incurred

	DOLLARS (000 omitted)							PERCENTAGES						
	(1) 1973	(2) 1974	(3) 1975	(4) 1976	(5) 1977	(6) 1978	(7) 1979	(8) 1973	(9) 1974	(10) 1975	(11) 1976	(12) 1977	(13) 1978	(14) 1979
	Summary Data from Schedule P—Part 1A													
1 Premiums Earned								100.0	100.0	100.0	100.0	100.0	100.0	100.0
2 Loss & Loss Exp. Inc'd														
	Loss & Loss Expense through 1 year													
3 Paid														
4 Reserve (2)—(3)														
	Loss & Loss Expense through 2 years													
5 Paid							X X							X X
6 Reserve (2)—(5)							X X							X X
	Loss & Loss Expense through 3 years													
7 Paid						X X	X X						X X	X X
8 Reserve (2)—(7)						X X	X X						X X	X X
	Loss & Loss Expense through 4 years													
9 Paid					X X	X X	X X					X X	X X	X X
10 Reserve (2)—(9)					X X	X X	X X					X X	X X	X X
	Loss & Loss Expense through 5 years													
11 Paid				X X	X X	X X	X X				X X	X X	X X	X X
12 Reserve (2)—(11)				X X	X X	X X	X X				X X	X X	X X	X X

SCHEDULE P—PART 3B—OTHER LIABILITY

Calendar Year Premiums Earned, Accident Year Loss and Loss Expense Incurred

	DOLLARS (000 omitted)							PERCENTAGES						
	(1) 1973	(2) 1974	(3) 1975	(4) 1976	(5) 1977	(6) 1978	(7) 1979	(8) 1973	(9) 1974	(10) 1975	(11) 1976	(12) 1977	(13) 1978	(14) 1979
	Summary Data from Schedule P—Part 1B													
1 Premiums Earned								100.0	100.0	100.0	100.0	100.0	100.0	100.0
2 Loss & Loss Exp Inc'd														
Loss & Loss Expense through 1 year														
3 Paid														
4 Reserve (2)—(3)														
Loss & Loss Expense through 2 years														
5 Paid							X X							X X
6 Reserve (2)—(5)							X X							X X
Loss & Loss Expense through 3 years														
7 Paid						X X	X X						X X	X X
8 Reserve (2)—(7)						X X	X X						X X	X X
Loss & Loss Expense through 4 years														
9 Paid					X X	X X	X X					X X	X X	X X
10 Reserve (2)—(9)					X X	X X	X X					X X	X X	X X
Loss & Loss Expense through 5 years														
11 Paid				X X	X X	X X	X X				X X	X X	X X	X X
12 Reserve (2)—(11)				X X	X X	X X	X X				X X	X X	X X	X X

See Schedule P—Part 3E for footnotes

SCHEDULE P—PART 3C—MEDICAL MALPRACTICE
Calendar Year Premiums Earned, Accident Year Loss and Loss Expense Incurred

	DOLLARS (000 omitted)							PERCENTAGES						
	(1) 1973 (a)	(2) 1974 (a)	(3) 1975	(4) 1976	(5) 1977	(6) 1978	(7) 1979	(8) 1973 (a)	(9) 1974 (a)	(10) 1975	(11) 1976	(12) 1977	(13) 1978	(14) 1979
	Summary Data from Schedule P—Part 1C													
1 Premiums Earned								100.0	100.0	100.0	100.0	100.0	100.0	100.0
2 Loss & Loss Exp. Inc'd.														
Loss & Loss Expense through 1 year														
3 Paid														
4 Reserve (2) — (3)														
Loss & Loss Expense through 2 years														
5 Paid							X X							X X
6 Reserve (2) — (5)							X X							X X
Loss & Loss Expense through 3 years														
7 Paid						X X	X X						X X	X X
8 Reserve (2) — (7)						X X	X X						X X	X X
Loss & Loss Expense through 4 years														
9 Paid					X X	X X	X X					X X	X X	X X
10 Reserve (2) — (9)					X X	X X	X X					X X	X X	X X
Loss & Loss Expense through 5 years														
11 Paid				X X	X X	X X	X X				X X	X X	X X	X X
12 Reserve (2) — (11)				X X	X X	X X	X X				X X	X X	X X	X X

SCHEDULE P—PART 3D—WORKMEN'S COMPENSATION
Calendar Year Premiums Earned, Accident Year Loss and Loss Expense Incurred

	DOLLARS (000 omitted)							PERCENTAGES						
	(1) 1973	(2) 1974	(3) 1975	(4) 1976	(5) 1977	(6) 1978	(7) 1979	(8) 1973	(9) 1974	(10) 1975	(11) 1976	(12) 1977	(13) 1978	(14) 1979
	Summary Data from Schedule P—Part 1D													
1 Premiums Earned								100.0	100.0	100.0	100.0	100.0	100.0	100.0
2 Loss & Loss Exp. Inc'd														
Loss & Loss Expense through 1 year														
3 Paid														
4 Reserve (2)—(3)														
Loss & Loss Expense through 2 years														
5 Paid							X X							X X
6 Reserve (2)—(5)							X X							X X
Loss & Loss Expense through 3 years														
7 Paid						X X	X X						X X	X X
8 Reserve (2)—(7)						X X	X X						X X	X X
Loss & Loss Expense through 4 years														
9 Paid					X X	X X	X X					X X	X X	X X
10 Reserve (2)—(9)					X X	X X	X X					X X	X X	X X
Loss & Loss Expense through 5 years														
11 Paid				X X	X X	X X	X X				X X	X X	X X	X X
12 Reserve (2)—(11)				X X	X X	X X	X X				X X	X X	X X	X X

**SCHEDULE P—PART 3E—FARMOWNERS MULTIPLE PERIL, HOMEOWNERS MULTIPLE PERIL,
 COMMERCIAL MULTIPLE PERIL, OCEAN MARINE, AIRCRAFT (ALL PERILS) AND BOILER AND MACHINERY**
Calendar Year Premiums Earned, Accident Year Loss and Loss Expense Incurred

	DOLLARS (000 omitted)							PERCENTAGES						
	(1) 1973	(2) 1974	(3) 1975	(4) 1976	(5) 1977	(6) 1978	(7) 1979	(8) 1973	(9) 1974	(10) 1975	(11) 1976	(12) 1977	(13) 1978	(14) 1979
	Summary Data from Schedule P—Part 1E													
1 Premiums Earned								100.0	100.0	100.0	100.0	100.0	100.0	100.0
2 Loss & Loss Exp. Inc'd.														
	Loss & Loss Expense through 1 year													
3 Paid														
4 Reserve (2)—(3)														
	Loss & Loss Expense through 2 years													
5 Paid							X X							X X
6 Reserve (2)—(5)							X X							X X
	Loss & Loss Expense through 3 years													
7 Paid						X X	X X						X X	X X
8 Reserve (2)—(7)						X X	X X						X X	X X
	Loss & Loss Expense through 4 years													
9 Paid					X X	X X	X X					X X	X X	X X
10 Reserve (2)—(9)					X X	X X	X X					X X	X X	X X
	Loss & Loss Expense through 5 years													
11 Paid				X X	X X	X X	X X				X X	X X	X X	X X
12 Reserve (2)—(11)				X X	X X	X X	X X				X X	X X	X X	X X

(a) Completion of this data is optional.

Note Item 2 is taken from this year's Schedule P—Part 1 and is consequently updated each year. Items 3, 5, 7, 9 and 11 are taken from the Schedule P—Part 1 for corresponding Part for years prior to 1975 of the year indicated by the heading immediately above each item, and consequently do not change after once being entered.

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SCHEDULE Y — TRANSACTIONS WITH AFFILIATES

PART 1. Transactions by the company and any affiliated insurer with any affiliate. Non-insurance transactions involving less than 1/2 of 1% of the total assets of the largest affiliated insurer may be omitted. Exclude cost allocation transactions based upon generally accepted accounting principles, and reinsurance transactions.

(1) DATE OF TRANSACTION	(2) EXPLANATION OF TRANSACTION	(3) NAME OF INSURER	(4) NAME OF AFFILIATE	ASSETS RECEIVED BY INSURER		ASSETS TRANSFERRED BY INSURER	
				(5) STATEMENT VALUE	(6) DESCRIPTION	(7) STATEMENT VALUE	(8) DESCRIPTION

PART 2. Guarantees or undertakings for the benefit of an affiliate which result in a contingent exposure of the Company's or any affiliated insurer's assets to liability. List and describe:

PART 3. Management and service contracts and all cost sharing arrangements, other than cost allocation arrangements based upon generally accepted accounting principles, involving the Company or any affiliated insurer. List and describe:

PART 4. Organizational Chart. Attach a chart or listing presenting the identities of and interrelationships among all affiliated insurers and all other affiliates, identifying all insurers as such. No non-insurer affiliate need be shown if its total assets are less than 1/2 of 1% of the total assets of the largest affiliated insurer.

NOTE: All members of a Holding Company Group shall prepare a common Schedule for inclusion in each of the individual annual statements and the consolidated Fire and Casualty Annual Statement of the Group

SCHEDULE T—EXHIBIT OF PREMIUMS WRITTEN
Allocated by States and Territories

(1) STATES, ETC.	(1a) IS INSURER LICENSED? (Yes or No)	GROSS PREMIUMS, INCLUDING POLICY AND MEMBERSHIP FEES, LESS RETURN PREMIUMS AND PREMIUMS ON POLICIES NOT TAKEN		(4) DIVIDENDS PAID OR CREDITED TO POLICYHOLDERS ON DIRECT BUSINESS	(5) DIRECT LOSSES PAID (Deducting Salvage)	(6) DIRECT LOSSES INCURRED	(7) DIRECT LOSSES UNPAID	(8) FINANCE AND SERVICE CHARGES NOT INCLUDED IN PREMIUMS
		(2) DIRECT PREMIUMS WRITTEN	(3) DIRECT PREMIUMS EARNED					
1 Alabama	AL							
2 Alaska	AK							
3 Arizona	AZ							
4 Arkansas	AR							
5 California	CA							
6 Colorado	CO							
7 Connecticut	CT							
8 Delaware	DE							
9 Dist. Columbia	DC							
10 Florida	FL							
11 Georgia	GA							
12 Hawaii	HI							
13 Idaho	ID							
14 Illinois	IL							
15 Indiana	IN							
16 Iowa	IA							
17 Kansas	KS							
18 Kentucky	KY							
19 Louisiana	LA							
20 Maine	ME							
21 Maryland	MD							
22 Massachusetts	MA							
23 Michigan	MI							
24 Minnesota	MN							
25 Mississippi	MS							
26 Missouri	MO							
27 Montana	MT							
28 Nebraska	NE							
29 Nevada	NV							
30 New Hampshire	NH							
31 New Jersey	NJ							
32 New Mexico	NM							
33 New York	NY							
34 No. Carolina	NC							
35 No. Dakota	ND							
36 Ohio	OH							
37 Oklahoma	OK							
38 Oregon	OR							
39 Pennsylvania	PA							
40 Rhode Island	RI							
41 So. Carolina	SC							
42 So. Dakota	SD							
43 Tennessee	TN							
44 Texas	TX							
45 Utah	UT							
46 Vermont	VT							
47 Virginia	VA							
48 Washington	WA							
49 West Virginia	WV							
50 Wisconsin	WI							
51 Wyoming	WY							
52 Guam	GU							
53 Puerto Rico	PR							
54 U.S. Virgin Is.	VI							
55 Canada	CN							
56 Other alien (itemize)**								
98 *Totals	X X X							

Explanation of Basis of Allocation of Premiums by States, etc.

*Total for Column 2 to agree with the total of Column 1 in Part 2C, Page 8. Total for Column 5 to agree with the total of Column 1 in Part 3, Page 9. Total for Column 6 to agree with the sum of totals for Columns 5 and 7 less the total for Column 7 in the previous annual statement.
 Total for Column 7 to equal Part 3A, Page 10, totals for Columns 1a and 4a. Total for Column 8 to agree with Item 11, Page 4.
 **All U. S. business must be allocated by state regardless of license status.

1979

INSTRUCTIONS

For Completing Fire and Casualty Annual Statement Blank

FOREWORD

Titles of the various statement items and lines are in general self-explanatory and as such constitute instructions. Specific further instructions are prescribed for items and lines about which there might be some question as to content. Any entry for which no specific instruction has been given should be made in accordance with sound insurance accounting principles and in a manner consistent with related items and lines covered by specific instructions.

Instructions for completing schedules and exhibits appearing therein and the Instructions for Uniform Classifications of Expenses of Fire and Marine and Casualty and Surety Insurers are not repeated here.

GENERAL

1. Date of filing: The statement is required to be filed on or before March 1st, unless otherwise provided by statute.
2. The name of the company must be plainly written or stamped at the top of all pages, exhibits and schedules (and duplicate schedules) and also upon all inserted schedules and loose sheets.
3. Printed statements or copies produced by some duplicating process, in lieu of handwritten or typewritten statements on the actual blanks furnished by this Department, will be accepted if (1) bound in covers similar in color to the blanks furnished by this Department; (2) printed or duplicated by a process resulting in permanent black characters on a good grade of paper of light color; (3) such statements and all supporting schedules contain all the information required, with the same headings and footnotes, and are of the same size and arrangement, page for page, column for column, and line for line, as in the blanks supplied by this Department, unless the company is otherwise instructed.
4. Blank schedules will not be accepted as meaning anything. If no entries are to be made, write "None" or "Nothing" across the schedule in question.
5. Check marks will not be accepted as answers to interrogatories.
6. Any item which cannot be readily classified under one of the printed items should be entered as a special item.
7. If the annual statement and schedules do not contain the information asked for in the blank or are not prepared in accordance with these Instructions, they will not be accepted.
8. For all items that are supported by exhibits, see the instructions for such exhibits.
9. Report all amounts in whole dollars only. Do not report any cents. Either round the amounts shown to the nearest dollar or simply drop the cents. If cents are dropped, state in a footnote on Page 2 that the failure of the items to add to the totals shown throughout the statement is due to the dropping of cents.
10. The company in completing the annual statement should not change the page numbers in the association blank. If extra pages are needed, use decimals after the page number like 32.1, 32.2, etc. If pages are doubled up, double up the page numbers also. For example, if Pages 32, 33 and 34 are shown on the same page, show all three page numbers at the top of the page like 32, 33, 34.

ASSETS—PAGE 2 AND SUPPORTING SCHEDULES

Each class of assets should be entered on Page 2 at its statement value. This value for real estate, bonds, stocks, and the amount loaned on mortgages and collateral securities must in all cases prove with the corresponding value for the preceding year after taking into consideration the items affecting them as shown in Part 1A and the corresponding schedules. (See also the instructions for Exhibit 1.)

The space at the foot of Page 2 is provided for a statement of the valuation bases for bonds, stocks, etc., and for comments upon items or transactions that are unusual or not self-explanatory or that might otherwise be misunderstood.

Companies should report all bonds and stocks owned or held as collateral for loans at the rates promulgated by the National Association of Insurance Commissioners.

The determination of market values of bonds and stocks not quoted in the stock exchange sheets or in lists published by large stock and bond houses will be materially expedited if each insurance company owning or loaning on any such security will send to the Valuation of Securities Subcommittee, N. A. I. C., 67 Wall Street, New York, New

York 10005, a copy of the financial statement of the issuing corporation for the most recent fiscal year as soon as possible after the end of the calendar year.

Exchanges of assets are required to be identified in the schedules by the abbreviation "ex" followed by a numeral in parentheses after a description of the asset disposed of and the asset acquired.

Assets such as those listed in Exhibit 2 are not acceptable assets and should not be entered on this page of the statement.

A "person" is an individual, corporation, or any other legal entity. A "parent" is any person that, directly or indirectly, owns or controls the insurer. A "subsidiary" is any person that is, directly or indirectly, owned or controlled by the insurer. An "affiliate" is any person that is, directly or indirectly, owned or controlled by the same person or by the same group of persons, that, directly or indirectly, own or control the insurer. The term "affiliate" includes parents and subsidiaries. Control shall be presumed to exist if a person, directly or indirectly, owns, controls, holds with the power to vote or holds proxies, representing 10% or more of the voting securities of any other person.

LIABILITIES, SURPLUS AND OTHER FUNDS—PAGE 3

ITEM 5—TAXES, LICENSES AND FEES

Exclude: Any amounts withheld or retained by the Company acting as agents for others. (See instructions for Item 13.)

ITEM 11—DIVIDENDS DECLARED AND UNPAID:

(b) Policyholders

Exclude: Dividends on uncollected premiums. (See Exhibit 1, Item 8.)

ITEM 13—AMOUNT WITHHELD OR RETAINED BY COMPANY FOR ACCOUNT OF OTHERS

Include employees' Old Age and Unemployment Contributions, withholding for purchase of Savings Bonds, taxes withheld at source, as well as amounts held in escrow for payment of taxes, insurance, etc., under F. H. A. or other mortgage loans.

If, however, a company has separate bank accounts for exclusive use in connection with employee bond purchases or escrow F. H. A. payments or other amounts withheld or retained in a similar manner, the related assets should be shown separately in Exhibit 1, and extended at zero value, unless such assets are income-producing for the company, in which case they should be shown both as assets and liabilities in the statement.

ITEM 14a—UNEARNED PREMIUMS ON REINSURANCE IN UNAUTHORIZED COMPANIES

Include: Total of amounts in Col. 4 of Schedule F, Part 1A, Section 1 for unauthorized companies.

ITEM 14b—REINSURANCE ON PAID AND UNPAID LOSSES DUE FROM UNAUTHORIZED COMPANIES

Include: Total of amounts in Cols. 1 and 2 of Schedule F, Part 1A, Section 1 for unauthorized companies.

ITEM 16—EXCESS OF STATUTORY RESERVES OVER STATEMENT RESERVES (Schedule P—Parts 1A, 1B, 1C, 1D and Schedule K)

Enter from Schedule P—Parts 1A, 1B, 1C, 1D and Schedule K the excess reserves as calculated in accordance with the computation method instructions included at the bottom of Schedule P—Parts 1A, 1B, 1C, 1D and Schedule K.

ITEM 17—NET ADJUSTMENTS IN ASSETS AND LIABILITIES DUE TO FOREIGN EXCHANGE RATES

Apply the appropriate exchange differential to the excess, if any, of foreign currency assets over foreign currency liabilities. Do not report negative amounts in this item.

ITEM 20—PAYABLE TO AFFILIATES

Any unreimbursed expenditure on behalf of the Company by a parent, its affiliates or subsidiaries should be reported as a liability in the annual statement on this line.

ITEM 22—

This line is for other liability items not specifically provided for and may be ledger or non-ledger.

Include: Interest paid in advance on mortgage loans.

Rents paid in advance.

Exclude: All voluntary and general contingency reserves and other special surplus funds not in the nature of liabilities.

ITEM 24—SPECIAL SURPLUS FUNDS

Enter only voluntary and general contingency reserves and other special surplus funds not in the nature of liabilities.

ITEM 25B—

Enter the amount of guaranty fund notes, contribution certificates, surplus notes, debenture notes, statutory deposits of alien insurers or similar funds other than capital stock, with appropriate description. Furnish pertinent information concerning conditions of repayment, redemption price and interest features, in answer to Question 8 on Page 15.

ITEM 26A—GROSS PAID IN AND CONTRIBUTED SURPLUS

This item should be the gross amount of paid in and contributed surplus without reduction on account of commissions or other expenses in connection with such transactions, but reduced by any distribution declared and paid as a return of such surplus.

ITEM 26C—TREASURY STOCK

Include number of shares, description, value included in Item 25A and cost of treasury stock acquired using Cost Method of accounting.

UNDERWRITING AND INVESTMENT EXHIBIT

STATEMENT OF INCOME—PAGE 4

This statement and the Capital and Surplus Account should be completed on the accrual, i.e., earned and incurred basis. Certain items may be either positive or negative, and should be entered accordingly. The various investment items of Interest, Rent, Profit and Loss, Depreciation, Appreciation, etc., appearing in the Parts supporting this statement of income must check with the data relating to the same transactions as set forth in the appropriate schedules. Profit and loss items must be itemized. The lists of items to be included in the various lines and supporting Parts are not intended to exclude analogous items which are omitted from the lists.

ITEM 12—(Write-in)

Premiums for life insurance on employees (less \$ increase in cash values).

NOTE: Use this item only where the Company is beneficiary.

ITEMS 13-16—

Include: Checks cancelled because of non-presentation for payment, not included elsewhere.

Receipts from Schedule X assets, other than interest, dividends and real estate income, and other than capital gains on investments.

Other sundry receipts and adjustments not reported elsewhere.

If the amount of any one type of item included in these lines represents more than 25% of the total for these lines, it should be identified separately.

ITEM 18A—DIVIDENDS TO POLICYHOLDERS

This item is the amount in Exhibit 3, Item 16, plus Item 11(b) on Page 3 of current year's statement, less Item 11(b) on Page 3 of prior year's statement.

ITEM 19—FEDERAL AND FOREIGN INCOME TAXES INCURRED

The amount of this item equals Item 14 of Exhibit 3, adjusted for reserves in Item 6 on Page 3 of the current and prior years' statements, and recoverables in Item 12 on Page 2 of current and prior years' statements.

CAPITAL AND SURPLUS ACCOUNT—PAGE 4

ITEM 25—CHANGE IN LIABILITY FOR UNAUTHORIZED REINSURANCE

This represents difference in Item 15 on Page 3 of current and prior years' statements.

ITEM 27—CHANGE IN EXCESS OF STATUTORY RESERVES OVER STATEMENT RESERVES

This item represents the difference in Item 16, Page 3 of current and prior years' statements.

ITEM 32—CHANGE IN TREASURY STOCK

Include: Change between years in ownership of treasury stock at cost.

ITEM 33—EXTRAORDINARY AMOUNTS OF TAXES FOR PRIOR YEARS

Include interest and expenses relating to prior years.

ITEMS 34-38—

Include: Net proceeds from life insurance on employees.
Interest paid on contributions made to surplus (Surplus Notes).

STATEMENT OF CHANGES IN FINANCIAL POSITION—PAGE 5

The sources indicated below as standard line references for the statement of changes in Financial Position should be used to the extent practical. Additional items and non-standard items should be analyzed and may require the use of additional write-in lines or an amendment of an existing line.

Line #	Annual Statement Reference
1	Page 4, Line 7
2	Page 3, Lines 1 & 2
3	Page 3, Line 10
4	Page 11, Column 2, Line 23 less 24
5	Page 2, Lines 8.1 and 8.2
6	Page 3, Lines 12 & 18; Page 2, Lines 9 & 11
7	Page 12, Exhibit 2, Column 3, Line 33
8	Page 3, Line 13
9.1	Page 2 & Page 3 From appropriate lines
9.2	Page 2, Line 13
9.3	Page 2, Lines 10 & 15-21 Unless reported elsewhere
9.4	Page 3, Lines 7, 17, 19-22
10	Total of Lines 1-9.4
11	Page 4, Line 9A
12	Page 11, Column 3, Line 23 less 24
13	Page 2, Line 14
14	Page 6, Part 1, Line 12, and Footnotes for Amortization
15	All other funds provided for Investment Operation not included elsewhere.
16	Total of Lines 11-15.2
17	Page 4, Line 17
18	Page 13, Line 16
19	Page 13, Line 14
20	Total of Lines 10, 16, 17, 18, 19
21	Schedule D, Part 4, Column 5 Excluding Schedule D, Part 5

22	Schedule D, Part 4, Column 5 Excluding Schedule D, Part 5
23	Schedule B, Column 10
24	Schedule A, Part 3, Column 8 + Part 3, Column 6 + Part 1, Column 9
25	Excluding Real Estate Depr. Page 6, Part 1, Line 12
26	Schedule C, Part 3, Column 6
27	Schedule BA—Verification—Lines 6 & 7**
28	Schedule D, Part 5, Column 8 — Part 5, Column 7
29	Page 4, Line 9
30.1	Total of Lines 21-28
30.2	Page 13, Lines 6 & 7
30.3	Page 3, Line 8
31	Page 4, Lines 32 & 33-38 if appropriate
32	Total of Lines 30.1, 30.2 and 30.3
33	Total of Lines 20, 29, 31
34	Schedule D, Part 3, Column 5, Excluding D, Part 5
35	Schedule D, Part 3, Column 5, Excluding D, Part 5
36	Schedule B, Column 9
37	Schedule A, Part 1, Column 8 + Part 2, Column 5 + Part 2, Column 6 + decrease in encumbrances
38	Schedule C, Part 2, Column 6
39	Schedule BA: Verification—Line 2
40.1	Total of Lines 33-38
40.2	Page 13, Line 15
41	Page 4, Line 26
42	Total of Lines 40.1, 40.2 and 40.3
43	Total of Lines 39, 41
44	Net of Lines 32, less 42
45	Page 2, Line 6, Column 2
	Page 2, Line 6, Column 1

**Excluding Non-Cash Items, e. g. Depletion

PART 1—INTEREST, DIVIDENDS AND REAL ESTATE INCOME—PAGE 6

Exclude from Column 6 any investment income overdue more than a certain period but not greater than the period specified by law, regulation or ruling.

ITEMS 1-1.3—BONDS

Interest due and accrued on bonds in default as to principal or interest is to be excluded from Cols. 6 and 7. The market value of such bonds includes such interest.

If bonds are carried at amortized values, the amounts of yearly accrual of discount and of amortization of premium may be reflected in Part 1 or in Part 1A. If such amounts are included in Part 1, Column 3 of this item should agree with Schedule D.

ITEMS 2.1, 2.11, 2.2 AND 2.21—STOCKS

Include: Dividends on stocks declared to be ex-dividend on or prior to December 31 where said dividend is payable on or after January 1 of the following year.

ITEM 3—MORTGAGE LOANS

Include: Income from property for which the transfer or legal title is awaiting expiration of redemption or moratorium period.

Deduct: Outgo on such property unless capitalized or shown in Part 4.

Servicing fees paid to correspondents and others unless included in Part 4.

ITEM 4—REAL ESTATE

Include: Income from ownership of properties per Schedule A. Adequate rent for company's occupancy, in whole or in part, of its own buildings, and for space therein occupied by agencies.

Deduct: Interest on encumbrances.

Exclude: Reimbursements of amounts previously capitalized; such amounts should normally be credited to the item to which the expenditure was charged originally.

ITEM 9—

Any paid interest items included in this line should be preceded by a minus sign or by the word "minus".

ITEM 10—TOTALS

The total of Column 6 should agree with Item 14, Column 4 of Exhibit 1.

ITEMS 13-14—

Include: Interest on borrowed money on an incurred basis, with appropriate designation.

PART 1A—CAPITAL GAINS AND LOSSES ON INVESTMENTS—PAGE 6

Enter gains and losses separately in Columns 1 to 4. Gains and losses may be offset against each other only where they apply to the same bond issue, property, etc. "Increase in Book Value" and "Decrease in Book Value" should not include amounts due to accrual of discount or amortization of premium or depreciation on real estate if these items are reported in Part 1.

ITEMS 1-1.3—BONDS

The amounts to be shown in Columns 4 and 5 will depend on whether the Company values bonds on the amortized basis and if so, whether it reflects the accrual of discount and amortization of premium in Part 1, Column 3. If such items are reflected in Part 1, the amount in Column 4 of Part 1A should agree with the differences between the totals of Columns 10 and 17, Schedule D, Part 1, plus the total of the bond portion of Column 9, Schedule D, Part 4, excluding accrual of discount. The amount in Column 5 should similarly agree with Schedule D.

PARTS 2, 2A, 2B, 2C, 3, 3A AND PAGE 14—PREMIUMS AND LOSSES**ITEM 2—ALLIED LINES**

Include: Extended coverage; tornado, windstorm and hail; sprinkler and water damage; explosion, riot and civil commotion; growing crops; flood; rain; and damage from aircraft and vehicle.

ITEM 5—COMMERCIAL MULTIPLE PERIL

Include: Multiple Peril policies (other than farmowners, homeowners and automobile policies) which include coverage for liability other than Auto. (For Texas Page 14 report all types of Commercial Multiple Peril Experience in the aggregate for the fire and allied portion on Line 8 and for the casualty portion on Line 28.)

ITEM 11—MEDICAL MALPRACTICE

Include: The medical malpractice portion of any policy for which the premiums for medical malpractice are separately stated. Include all indivisible premium policies for which at least one half of the premium is for medical malpractice coverage. Medical malpractice is insurance of persons lawfully engaged in the practice of medicine, surgery, dentistry, nursing, dispensing drugs or medicines, or other health care services, and persons lawfully engaged in the operation of hospitals, sanatoriums, nursing homes, and other health care institutions, against loss, expense and liability resulting from errors, omissions, or neglect in the performance of professional service. It does not include insurance of persons engaged in the care and treatment of animals.

Columns 2 and 4 should include additional premiums resulting from audits and all other premium transactions on expired policies.

Deductions of reinsurance ceded in Column 6 should be made on the basis of original premiums and original terms except in the case of excess loss or catastrophe reinsurance which should be deducted only

PART 2A—PREMIUMS IN FORCE—PAGE 7

Column 1 plus Column 3 plus Column 5 should agree with Column 7 of Part 2A.

Premium deposits on perpetual fire insurance risks should be charged as a liability to the extent of at least 90% of the gross amount of such deposit.

The reserve for rate credits and retrospective returns based on experience, Column 6, may be computed for each policy year by application of a flat percentage to the retrospective standard or subject earned premiums. The percentage should be based on the individual company's experience.

FOOTNOTE (b)—RESERVE FOR DEFERRED MATERNITY AND OTHER SIMILAR BENEFITS

A reserve must be carried in this Part or in Part 3A for any policy which provides for the extension of benefits after termination of the policy or of any insurance thereunder. Such benefits, which actually accrue and are payable at some future date, are predicated on a condition or actual disability which exists at the termination of the insurance and which is usually not known to the insurance company. These benefits are normally provided by contract provision but may be payable as a result of court decisions or of departmental rulings.

An example of the type of benefit for which this reserve must be carried is the coverage for hospital confinement due to maternity under a Group Hospital Expense policy where the hospitalization begins within a period, usually nine months, after the termination of an employee's insurance. Another example of the type of benefit for which a reserve may be set up is the coverage under a Group Hospital Expense policy for hospital confinement, due to causes other than maternity after the termination of an employee's insurance but prior to the expiration of a stated period. These examples are illustrative only and are not intended to limit the reserve to the benefits described. Some individual

PART 3—LOSSES PAID AND INCURRED—PAGE 9

Any changes in non-ledger reinsurance recoverable on paid losses should be included in Column 3.

PART 3A—UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES—PAGE 10

Columns 1a and 1b—Adjusted or in Process of Adjustment. Include all losses which have been reported in any way to the Home Office of the company on or before December 31 of the current year. Provision for losses of the current year or prior years, if any, reported after that date would be made in Columns 4a and 4b as Incurred But Not Reported.

Columns 4a and 4b—Incurred But Not Reported. Except where inapplicable, the reserve included in these columns should be based on past experience, modified to reflect current conditions, such as changes in exposure, claim frequency or severity.

Make no deduction in Columns 1a, 1b, 4a or 4b for anticipated salvage or subrogation recoveries.

Column 5—The sum of Lines 3, 4, 5, 8, 22 and 27 to agree with Sch. P, Part 1E, Total, Col. 9.
Line 11 to agree with Sch. P, Part 1C, Total, Col. 9.

ITEMS 2.1, 2.11, 2.2 AND 2.21—STOCKS

Include: In Column 5 the net change in the deduction for Company's stock owned. (See Exhibit 2, Line 23.)

Exclude: Proceeds of sale of rights, etc. (Reduce stock asset accordingly.)

ITEM 3—MORTGAGE LOANS

Include: In Column 1 bonuses (acceleration fees) received on prepayment of mortgage loans.

ITEM 6—CASH ON HAND AND ON DEPOSIT

Include: Gains or losses arising from the transfer of funds to or from other countries.
In Column 5 the net change in deduction for deposits in suspended depositories.

ITEM 9—

Include: Capital gains from investments previously charged off.

ITEM 17—OTHER LIABILITY

Include: Physical damage other than auto and aircraft.

ITEM 19—AUTO LIABILITY

Include: All automobile coverages except auto physical damage.

ITEMS 19.1, 19.2, 21.1 and 21.2—PRIVATE PASSENGER AND COMMERCIAL AUTOMOBILE

19.1 and 21.1, Private passenger automobile, include all other automobile policies.

19.2 and 21.2, Commercial automobile, include all automobile policies that include 5 or more automobiles or that include any commercial automobiles.

ITEM 29—International includes business transacted outside of the United States and its territories and possessions. International business which includes only one line of business or for which accurate detail is available for each line of business included, shall be excluded from this line and included in such other line or lines.

ITEM 30—Reinsurance which includes only one line of business or for which accurate detail is available for each line of business included, shall be excluded from this line and included in such other line or lines.

on the basis of actual reinsurance premiums and actual reinsurance terms.

Annual instalments on term business may be set up in Part 2A as they become due or as if the entire term premium were prepaid.

PART 2B—RECAPITULATION OF ALL PREMIUMS—PAGE 8

accident and health policies may also provide benefits similar to those under the "Extension of Benefits" section of a group policy.

A separate computation may be made of the reserve for deferred maternity benefits and of that for other extended benefits under group insurance policies. A further breakdown may be made, in the computation of the reserve, according to benefits for employee's hospitalization, those for dependent's hospitalization, medical and surgical benefits for employees, and medical and surgical benefits for dependents. Claims according to past experience for each of these classes can be related to the corresponding exposure and the resulting ratio applied to the current exposure to obtain the reserve for each such class.

The following is a theoretical illustration of the method referred to in the preceding paragraph for computing the year-end reserve in the case of deferred maternity hospitalization benefits for employees. Obtain for policies providing these benefits, all employee maternity claims where the employee, or former employee, entered the hospital during the first nine months of the current year. Divide this total by the "in force" at the mid-point of the last nine months of the previous year. (The "in force" on a particular policy would be the product of the number of insured employees and the applicable daily hospital benefit.) The resulting ratio would be applied to the "in force" at the mid-point of the last nine months of the current year to obtain the required reserve. Only policies providing the benefits described would be used in the computation. Of course, the procedure should be varied as circumstances require.

It is intended that this reserve should be set up on the assumption that all insurance under policies containing an extension of benefits will be terminated on the statement date. The reserve should not be limited to the payments which the Company would expect to make under the extension of benefits clause in the year following the statement date.

Attach to the annual statement a description of the methods used in computing this reserve for each type of coverage for which a reserve is held.

Line 16 to agree with Sch. P, Part 1D, Total, Col. 9
Line 17 to agree with Sch. P, Part 1B, Total, Col. 9
Line 19 to agree with Sch. P, Part 1A, Total, Col. 9

Column 6—The sum of Lines 3, 4, 5, 8, 22 and 27 to agree with Sch. P, Part 1E, Total, Col. 10.

Line 11 to agree with Sch. P, Part 1C, Total, Col. 10.
Line 16 to agree with Sch. P, Part 1D, Total, Col. 10.
Line 17 to agree with Sch. P, Part 1B, Total, Col. 10.
Line 19 to agree with Sch. P, Part 1A, Total, Col. 10.

FOOTNOTE (a)—See instructions for Footnote (b) under Part 2B.

ITEM 1—BONDS

The amount appearing in Column 4 must be the amortized or market value in accordance with the recommendations of the Committee on Valuation of Securities of the N. A. I. C. The amount needed to bring the book value to this value should be entered in Column 2 or 3.

Exclude: Interest due and accrued (include in Item 14).

ITEM 2—STOCKS

The amount appearing in Column 4 must be the market value for common stocks and the statement value for preferred stocks in accordance with the recommendations of the Committee on Valuation of Securities of the N. A. I. C. The amount needed to bring the book value to this value should be entered in Column 2 or 3.

ITEM 3—MORTGAGE LOANS ON REAL ESTATE

Include: Foreclosed liens subject to redemptions.

Exclude: Interest due and accrued (include in Item 14).

ITEM 4—REAL ESTATE

The amount appearing in Column 4 for properties occupied by the Company (home office real estate) shall not exceed actual cost, plus capitalized improvements, less normal depreciation. This formula shall apply whether the property is held directly or indirectly by the Company.

Exclude: Income due and accrued (include in Item 14).

ITEM 5—COLLATERAL LOANS

Exclude: Interest due and accrued (include in Item 14).

ITEM 6b—CASH ON DEPOSIT (Schedule N)

(In compiling Schedule N enter depository balances not on interest December 31st before those on interest and show subfooting of each class.)

Include: In Column 3 the excess of deposits in suspended depositories over the estimated amount recoverable.

ITEM 8—AGENTS' BALANCES OR UNCOLLECTED PREMIUMS

Column 4 of both Lines 8.1 and 8.2 consists of uncollected premiums less commissions and dividends applicable thereto and should equal direct balances plus reinsurance assumed balances (authorized and unauthorized) minus the over three months non-admitted portion.

In determining the over three months non-admitted portion of reinsurance assumed balances, do not include amounts due from a ceding insurer (a) to the extent the assuming insurer maintains unearned premium and loss reserves as to the ceding insurer, under normal principles of offset accounting, or, (b) where the ceding insurer is licensed and in good standing in the state of the assuming insurer's domicile.

In the case of Accident and Health premiums due and unpaid, include in Column 3 due and unpaid premiums effective prior to October 1 and, on other than group, any premiums in excess of one periodic premium due and unpaid in the case of premiums payable more frequently than quarterly.

ITEM 11—REINSURANCE RECOVERABLE ON LOSS PAYMENTS

Include: Amounts recoverable on losses paid by the ceding company. Reinsurance recoverable on unpaid losses should be treated as a deduction from the reserve liability therefor.

ITEM 12—FEDERAL INCOME TAX RECOVERABLE

Federal Income Tax Recoverable should be reported on Line 12 of Exhibit 1 and should include only those amounts previously reported in Exhibit 3, Line 14, of the current and prior years' annual statements.

In the case of an insurer that is a party to a consolidated tax return with one or more affiliates, the caption for Federal Income Tax Recoverable should reflect the source of the recoverable such as "Federal Income Tax Recoverable—Parent".

Insurers may recognize intercompany transactions arising from income tax allocations among companies participating in a consolidated tax return provided the following conditions are met:

1. There is a written agreement describing the method of allocation and the manner in which intercompany balances will be settled, and
2. Such agreement requires that any intercompany balance will be settled within a reasonable time following the filing of the consolidated tax return, and
3. Such agreement complies with regulations promulgated by the Internal Revenue Service, and
4. Any receivables arising out of such allocation must meet the criteria for admitted assets as prescribed by the domiciliary state of the insurer, and
5. Liabilities which offset the related intercompany receivables are established by other companies participating in the consolidated tax return.

ITEM 13—ELECTRONIC DATA PROCESSING EQUIPMENT

Include: Enter in this line the value of any electronic data processing equipment carried at an admitted asset value permitted by law, ruling or regulation. Any such value should be reported in Item 13, Page 2, captioned "Electronic Data Processing Equipment".

Exclude: Under no circumstances should computer software other than operating system software be considered as an asset, either admitted or non-admitted.

ITEM 17—EQUIPMENT, FURNITURE AND SUPPLIES

Exclude: Any electronic data processing equipment which is carried at an admitted asset value permitted by law, ruling or regulation.

ITEM 26.2—PREMIUMS, AGENTS' BALANCES AND INSTALLMENTS BOOKED BUT DEFERRED AND NOT YET DUE

This item should include all future installments on all policies for which one or more installments are over three months past due.

EXHIBIT 3—RECONCILIATION OF LEDGER ASSETS—PAGE 13

Profit and Loss items must be itemized and should be entered gross in both increases and decreases.

ITEM 12 (g)—(Write-in)

Premiums for life insurance on employees (less \$ increase in cash values).

NOTE: If the cash values on such policies are not carried on the ledger, no deduction would be made in this item for the increase during the year in such values. Use this item only where the Company is beneficiary.

GENERAL INTERROGATORIES—PART A—PAGE 15

8a. The following information with regard to stock options should be furnished and analogous information should be supplied for warrants or rights:

1. A brief description of the terms of each option arrangement including:
 - (a) the title and amount of securities subject to option;
 - (b) the year or years during which the options were granted; and
 - (c) the year or years during which the optionees became, or will become, entitled to exercise the options.
2. A statement of:
 - (a) the number of shares under option at the end of the statement year, and the option price and the fair value thereof, per share and in total, at the dates the options were granted;
 - (b) the number of shares with respect to which options became exercisable during the year, and the option price and fair value thereof, per share and in total, at the dates the options became exercisable;
 - (c) the number of shares with respect to which options were exercised during the year, and the option price and fair value thereof, per share and in total, at the dates the options were exercised.

Options to buy stock are deemed to be granted on the date that a designated number of shares are assigned to a specific individual, notwithstanding the stipulation at that time that such shares are not exercisable until certain attached conditions are met, such as those relating to persistency of

insurance produced by the optionee or his continuance in employment for a period of years.

The required information may be summarized as appropriate with respect to each of these categories. The above information should be supplied whether the stock involved relates to the Company, the parent of the company, a subsidiary of the company, or an affiliated corporation. The information should be shown separately for (1) agents and brokers and (2) employees and others.

22. The information to be reported on all such transactions during the year must include, but not necessarily be limited to, the following items for each such transaction:

- (1) Dates of transaction—securities delivered on securities returned on
- (2) Complete description of securities involved
- (3) Number of shares or amount of bond or other security
- (4) Market value on date securities were delivered \$
- (5) Market value on date securities were returned \$
- (6) Collateral value held \$
- (7) Form of collateral
- (8) Collateral held by (name and address)
- (9) Names and addresses of all other persons involved in transaction

SCHEDULE F—PART 1A—SECTION 1—CEDED REINSURANCE AS OF DECEMBER 31, CURRENT YEAR

List names and location of all reinsurers and list amounts of reinsurance in the appropriate columns. Reinsurers for whom the total of the amounts in Columns 1, 2 and 4 is less than \$50,000.00 may be combined and shown on one line identified as "Reinsurers for whom the total of Columns 1, 2 and 4 is less than \$50,000.00". Where the total amount of unauthorized alien reinsurance premiums in force, other than with Underwriters at Lloyd's of London, constitutes less than 5 per cent of the total reinsurance premiums in force and where the total amount of losses recoverable from such unauthorized alien reinsurers, as reported in Columns 1 and 2, is less than 5 per cent of the total amount of such losses recoverable from all reinsurers, these amounts may be bulked and reported in a one-line entry only, captioned "Other Unauthorized Alien Reinsurers". When this method of reporting is used, the names of all alien reinsurers, other than Underwriters at Lloyd's of London, shall be reported in a separate schedule to be furnished to each Department not later than June 1st. Where reinsurance is ceded to an alien pool, list the names of the individual reinsurers and their home office locations, together with the amounts of reinsurance ceded to each reinsurer, or submit, not later than June 1, a schedule listing the name, home office location and share of each participant in each pooling agreement.

The unearned premium shown in Column 4 should be computed accurately for each authorized and unauthorized reinsurer.

Where a large number of reinsuring companies is involved, the following method will be acceptable:

1. The unearned premium reserve should be calculated accurately for each unauthorized reinsurer and totaled.
2. The total unearned premium reserve for all authorized and unauthorized companies (combined) should be calculated accurately.
3. A ratio should be computed by subtracting (1) from (2) above and then dividing the difference by total premiums in force for authorized companies.
4. The application of this ratio, as derived in (3), to the premiums in force of each authorized company gives the amount to be entered in Column 4.

A modification would be necessary in the case of portfolio reinsurance.

The inclusion of the foregoing method in the Instructions is not intended to prevent the use of other approximate methods which produce reliable results.

SCHEDULE F—PART 1A—SECTION 2—ASSUMED REINSURANCE AS OF DECEMBER 31, CURRENT YEAR

Reinsureds for whom the total of the amounts in Columns 1, 2 and 3 is less than \$50,000.00 may be combined and shown on one line identified as "Reinsureds for whom the total of Columns 1, 2 and 3 is less than \$50,000.00". Reinsurance assumed from pools or syndicates

may be reported in the name of the pool or syndicate instead of in the names of the insurers which ceded the reinsurance to the pool or syndicate.

SCHEDULE F—PART 2—FUNDS WITHHELD ON ACCOUNT OF REINSURANCE IN UNAUTHORIZED COMPANIES AS OF DECEMBER 31, CURRENT YEAR

Segregate Unearned Premiums (Col. 1), Paid and Unpaid Losses Recoverable (Col. 2), Deposits by and Funds withheld from Reinsurers (Col. 4) and Miscellaneous Balances (Col. 5) on an individual contract

basis. It is necessary in the case of Underwriters at Lloyd's of London to make the segregation by individual contract since there are different parties of interest under each agreement.

SCHEDULE H—ACCIDENT AND HEALTH EXHIBIT

FILING DATE—This schedule is to be filed not later than April 1.
COLUMN 4—COLLECTIVELY RENEWABLE

Include amounts pertaining to policies which are made available to groups of persons under a plan sponsored by an employer, or an association or a union or affiliated associations or unions or a group of individuals supplying materials to a central point of collection or handling a common product or commodity, under which the insurer has agreed with respect to such policies that renewal will not be refused, subject to any specified age limit, while the insured remains a member of the group specified in the agreement unless the insurer simultaneously refuses renewal to all other policies in the same group. A sponsored plan shall not include any arrangement where an insurer's customary individual policies are made available without special underwriting considerations and where the employer's participation is limited to arranging for salary allotment premium payments with or without contribution by the employer. Such plans are sometimes referred to as payroll budget or salary allotment plans. A sponsored plan may be administered by an agent or trustee.

Include amounts pertaining to policies issued by a company or group of companies under a plan, other than a group insurance plan, authorized by special legislation for the exclusive benefit of the aged through mass enrollment.

Include amounts pertaining to policies issued under mass enrollment procedures to older people, such as those age 65 and over, in some geographic region or regions under which the insurer has agreed with respect to such policies that renewal will not be refused unless the

insurer simultaneously refuses renewal to all other policies specified in the agreement.

COLUMN 5—NON-CANCELLABLE

Include amounts pertaining to policies which are guaranteed renewable for life or to a specified age, such as 60 or 65, at guaranteed premium rates.

COLUMN 6—GUARANTEED RENEWABLE

Include amounts pertaining to policies which are guaranteed renewable for life or to a specified age, such as 60 or 65, but under which the insurer reserves the right to change the scale of premium rates.

COLUMN 7—NON-RENEWABLE FOR STATED REASONS ONLY

Include amounts pertaining to policies in which the insurer has reserved the right to cancel or refuse renewal for one or more stated reasons, but has agreed implicitly or explicitly that, prior to a specified time or age, it will not cancel or decline renewal solely because of deterioration of health after issue.

COLUMN 9—ALL OTHER

Include any other Accident and Health coverages not specially required in other columns.

APPROPRIATELY

"Appropriately" where used in the instructions for Schedule H means the appropriate accident and health portions of referenced data. Reconciliation with figures drawn from other parts of the statement may only be possible with respect to Group Accident and Health (Column 2),

Credit (Group and Individual) Accident and Health (Column 3) and Other Accident and Health (the combination of Columns 4 through 9) and in some cases may only be possible with respect to Total Accident and Health (Column 1) of Schedule H.

PART 1—ANALYSIS OF UNDERWRITING OPERATIONS

LINE 1—PREMIUMS WRITTEN

Should agree appropriately with those shown in Annual Statement Part 2C—Premiums Written.

LINE 2—PREMIUMS EARNED

Should agree with Line 1 minus the increase in reserves shown in Part 2, Section A, Line 6 below.

LINE 3—INCURRED CLAIMS

Should agree appropriately with losses incurred as shown in Annual Statement Part 3—Losses Paid and Incurred. This should also agree with losses paid, adjusted for the change in reserves shown in Part 2, Section C, Line 3 below.

LINE 4—INCREASE IN POLICY RESERVES

Should agree with Part 2, Section B, Line 5 below.

LINE 5—COMMISSIONS

Should agree appropriately with Line 6 of the Insurance Expense Exhibit, Part II.

LINE 6—GENERAL INSURANCE EXPENSE

Should agree appropriately with the sum of Lines 5, 7 and 10 of the Insurance Expense Exhibit, Part II.

LINE 7—TAXES, LICENSES AND FEES

Should agree appropriately with Line 11 of the Insurance Expense Exhibit, Part II.

LINE 8—TOTAL EXPENSES INCURRED

Sum of Lines 5, 6 and 7 and should agree appropriately with Line 12 of the Insurance Expense Exhibit, Part II.

LINE 9—GAIN FROM UNDERWRITING BEFORE DIVIDENDS

Line 2 less the sum of Lines 3, 4 and 8.

LINE 10—DIVIDENDS TO POLICYHOLDERS

Should agree appropriately with Line 14 of the Insurance Expense Exhibit, Part II.

LINE 11—GAIN FROM UNDERWRITING AFTER DIVIDENDS

Line 9 minus Line 10.

PART 2—RESERVES AND LIABILITIES**PREMIUM RESERVES**

Should agree appropriately with those in Annual Statement Part 2B—Recapitulation of All Premiums less amounts reported as policy reserves in Part 2, Section B.

POLICY RESERVES

Should agree appropriately with the reserves for footnotes (a) and (b) to Annual Statement Part 2B—Recapitulation of All Premiums.

CLAIM RESERVES AND LIABILITIES

Should agree appropriately with the Net Losses Unpaid shown in Annual Statement Part 3A—Unpaid Losses and Loss Adjustment Expense.

PART 3—TEST OF PREVIOUS YEAR'S CLAIM RESERVES AND LIABILITIES

Data should agree appropriately with that reported in Schedule O, Part 1.

SCHEDULES O AND P

1. Schedules O and P should include only the data for the insurer identified on Page 1 of the annual statement. Do not include consolidated data for affiliated companies except in a consolidated annual statement. If the insurer participates in a pooling agreement, show only its share of the business, not the total for all participants.
2. Schedule P, Part 1, Summary should be the sum of Schedule P, Parts 1A, 1B, 1C, 1D and 1E.
3. Entries in Schedules O and P should reconcile with data on Pages 7, 9 and 10 as follows:
 - a. Page 7, Column 4 should reconcile with Schedule P, Parts 1A through 1E, Column 2 for the latest year, and with Schedule O, Part 3, Column 2 for the latest year, for the appropriate lines of business.
 - b. Page 9, Column 4 should reconcile with Schedule O, Part 1, Column 8 and with the increase in the current annual statement over the previous annual statement in the total line in both Schedule P, Parts 1A through 1E, Column 3 and also Schedule O, Part 3, Column 3 less Column 3a for the appropriate lines of business.
 - c. Page 10, Column 5 (Column 3 for fidelity and surety) should reconcile with the total lines in Schedule P, Parts 1A through 1E, Column 9 and Schedule O, Part 3, Column 9 for the appropriate lines of business.
 - d. Page 10, Column 6 should reconcile with the total lines in Schedule P, Parts 1A through 1E, Column 10 and Schedule O, Part 3, Column 10 for the appropriate lines of business.

INSTRUCTIONS**For Completing Accident and Health Policy Experience Exhibit****FOREWORD**

Titles of the various items and lines are in general self-explanatory and as such constitute instructions. Specific further instructions are prescribed for items and lines about which there might be some question as

to content. Any entry for which no specific instruction has been given should be made in a manner consistent with related items and lines covered by specific instructions.

GENERAL

1. The name of the company must be clearly shown at the top of each page or pages.
2. The actual blank form of the Exhibit furnished by this Department should be considered by a company as a guide in reporting its own figures as the spaces for each classification are in most instances too small to permit its use directly, and it is unlikely that a company would have items to report in each of the classifications. For those classifications for which a company has nothing to report the classification heading need not be shown on its report. The form should show each Section A, B, C, D and E and if there are no data in one of these sections, the word "none" should be inserted. Where necessary, one or more pages should be used with the size and general arrangement to be consistent with the sample blank.
3. This Exhibit should not include any data pertaining to double indemnity, waiver of premiums and other disability benefits embodied in life contracts.
4. Include membership or policy fees, if any, with Premiums Earned. (Col. 3)
5. Experience for classifications under Sections A and B need not be reported by policy form.
6. Policy forms issued on the Industrial Debit Basis (premiums payable weekly) which are included under Section C should be identified by placing the designation (I) to the left of the Name of the Policy.
7. A company may separate first year business and renewal business for any classification by using two lines for each form. Show first year business on top line and place the designation (F) to the right of the loss ratio. Show the renewal business on next line and place the designation (R) to the right of the loss ratio.
8. Experience under Schedule Form Policy (except Non-Cancellable and Guaranteed Renewable) should be reported for each combination of coverages issued under the forms. The experience for individual combinations of coverage with a premium volume less than 5% of the total for the Schedule Form Policy may be merged and reported on a single line.
9. Experience on a form not currently being issued need not be reported separately unless premiums on such policy form exceed 5% of total premiums, excluding premiums for group insurance. The combined data on all policy forms not reported separately should be included under the proper classification and identified under the second column as "Forms Not Currently Being Issued". If experience is reported separately on any form not currently issued, insert an asterisk (*) before the name of the policy form in the second column.
10. The "Totals" at the bottom of the Exhibit should agree with Column 1 of the appropriate lines of Schedule H.

DEFINITIONS

The classifications under each Section C, D, and E are the same classifications used for Columns 4 to 9 inclusive in Schedule H. The definitions of Collectively Renewable, Non-cancellable, Guaranteed Renewable, and Non-renewable for Stated Reasons Only are shown in the instructions for Schedule H. Other definitions are as follows:

1. Conversions—Include data on individual policies which have been converted without evidence of insurability from either Group or from another individual policy. Do not include data on policies which have been changed as a result of an increase or decrease in coverage or other similar change.
2. Premiums \$7.50 or Less Per Person Annually—Include data on policy forms which average having an annual premium of \$7.50 or less. Where a policy covers a contingency for a period of coverage less than a year, the premium for that period is to be considered as the annual premium.
3. Mass Underwriting Basis—This sub-classification of the Collectively Renewable classification under Section C pertains to (1) policies issued by a company or a group of companies under a plan, other than a group insurance plan, authorized by special legislation for the exclusive benefit of the aged through mass en-

rollment and to (2) policies issued under mass enrollment procedures to older people, such as those age 65 and over, in some geographic region or regions under which the insured has agreed with respect to such policies that renewal will not be refused unless the insurer simultaneously refuses renewal to all other policies specified in the agreement. Data on policies classified as Collectively Renewable but not meeting the above definition of Mass Underwriting Basis should be placed in the "other" sub-classification.

4. **Mixed Benefits**—Where a Policy Form provides both Medical Expense Benefits and Loss of Time Benefits, as well as other benefits and 50% or more of the premium is for one of these classifications, the data should be placed in such classification.
5. **Mixed Renewal Provision**—Where a Policy Form is Guaranteed Renewable or Non-cancellable up to some age, such as age 65 and, thereafter renewable at the option of the company, the data should be placed in the original classification.
6. **"C—Hospital, Medical and Surgical Policies"**—Include in this section data on policies providing Hospital, Medical and Surgical

benefits as well as data on policies commonly referred to as Major Medical, Comprehensive, Catastrophe, Hospital Indemnity, Nursing Home Benefits, Dental Expense and Blanket Accident Medical Expense.

7. **"D—Loss of Time Policies"**—Include in this section data on policies providing monthly or weekly income benefits for disability arising from sickness and/or accident. Policies providing limited benefits, for example, where benefits are payable only in the event of injury in a public conveyance should be placed in Section E. Include in Section D data on policy forms that provide Overhead Expense Benefits and Mortgage Disability Income Benefits.
8. **"E—All Other Policies"**—Include in this section all policy forms not belonging in Sections A, B, C, or D. Policy Forms belonging in this section are those which provide benefits specifically for cancer, dread disease, specified diseases, travel protection, accidental death, accidental death and dismemberment, student accident, trip insurance, etc., where not included in Section A in the classification, "Premiums \$7.50 or Less Per Person Annually".

INSTRUCTIONS FOR COMPANIES ACTING AS MEDICARE FISCAL INTERMEDIARIES

Medicare Fiscal Intermediaries act as administrative agents for the Social Security Administration on a reimbursement basis. In general, accounting activity in connection with Medicare should be handled such that the financial results reflected in the various statements and exhibits of the Annual Statement of those companies acting as Medicare Fiscal Intermediaries under such contracts are on a comparable basis to those of any other insurers. The following instructions should be applied for the particular transactions specified.

ASSETS—PAGE 2

Any excess of cash disbursements over cash received from the Social Security Administration and credited to Intermediaries' general accounts should be reported as a miscellaneous ledger asset.

Any amount in a bank account established under Medicare or similar programs should be excluded from assets.

LIABILITIES—PAGE 3

Any excess of cash received from the Social Security Administration over cash disbursements should be reported as a miscellaneous ledger liability.

PART 4—PAGE 11

Intermediaries' administrative expense reimbursements should be credited to the individual accounts, such as salaries, rent, travel, etc. In other words, each line in this part should be reported on a net after reimbursement basis. Reimbursement for minor indirect expenses allocated to the Medicare operation may be credited in total in Line 21—Miscellaneous.

EXHIBIT 1—PAGE 12

EQUIPMENT, FURNITURE AND SUPPLIES

Company-owned equipment, furniture and supplies used in connection with Medicare operations should be reported as provided in the instruction for Item 17 of this exhibit.

INSTRUCTIONS

For completing Consolidated Annual Statement for Affiliated Fire and Casualty Insurers

GENERAL

1. Every group of affiliated insurers which includes more than one fire and casualty insurer shall complete a consolidated annual statement and insurance expense exhibit for all affiliated fire and casualty insurers. Include United States branches of alien insurers and alien insurers owned, directly or indirectly, in whole or in part, by a United States insurer. Other affiliated alien insurers may be excluded.
2. The blank to be used is the NAIC annual statement blank for fire and casualty insurers and the instructions therefor subject to the additional instructions included herein.
3. Wherever the word "company" appears in the blank it should be construed to mean "company and its consolidated affiliates".
4. On the cover and on Page 1 print "Consolidated" above "Annual Statement" and in the space for the name of the insurer show the name of the principal fire and casualty insurer of the group followed by "and its affiliated fire and casualty insurers:" Include the names of all affiliated fire and casualty insurers.
5. Date of filing: On or before April 1.
6. Appropriate changes may be made in the jurat on Page 1.

ASSETS—PAGE 2 AND EXHIBIT 1

Eliminate all amounts receivable or recoverable from consolidated affiliates. Make compensating adjustments in liabilities on Page 3. Eliminate mortgage loans to consolidated affiliates. Make compensating ad-

justments in the net amount of real estate. Eliminate collateral loans to consolidated affiliates. Make compensating reductions in liabilities for borrowed money on Page 3.

LIABILITIES—PAGE 3

Write in on Line 24 an item for minority interests, if there are any.

REINSURANCE—PAGES 7, 8, 9, 10, 11 AND SCHEDULES F AND H

Eliminate reinsurance ceded and assumed among consolidated affiliates.

SCHEDULE D

Eliminate all bonds and stocks of consolidated affiliates. Make compensating adjustments in liabilities, surplus and other funds on Page 3.

OMITTED INFORMATION

The following information may be omitted:
The General Interrogatories, the Special Deposit Schedule, the Schedule of All Other Deposits, Schedules A, B, BA and C, Schedule

D except for the Summary, Part 1A and the detail for parents, subsidiaries and affiliates, Schedule F except for the totals and subtotals for Parts 1A and 1B, Schedules M, N and X.

APPENDIX D

PRODUCTS LIABILITY INSURANCE SUPPLEMENT - 1979

FOR THE YEAR ENDED DECEMBER 31, 1979

INSURANCE COMPANY

OF THE

ADDRESS (City, State and Zip Code)

NAIC Group Code

NAIC Company Code

REPORT TO THE STATE BOARD OF INSURANCE AUSTIN, TEXAS 78786

(To Be Filed Not Later Than May 1, 1980)

Include in this exhibit the product liability portion of any policy for which the premiums for product liability are separately stated. Include all indivisible premium policies for which at least one-half of the premium is for product liability coverage.

EXHIBIT OF PREMIUMS AND LOSSES BY STATE — PRODUCTS LIABILITY INSURANCE

1 States, Etc.	2 Gross Premiums, Including Policy and Membership Fees, Less Return Premiums and Premiums on Policies Not Taken		4 Dividends Paid or Credited to Policyholders on Direct Business	5 Direct Losses Paid (Deducting Salvage)	6 Direct Losses Incurred	7 Direct Losses Unpaid
	2 Direct Premiums Written	3 Direct Premiums Earned*				
1 Alabama AL						
2 Alaska AK						
3 Arizona AZ						
4 Arkansas AR						
5 California CA						
6 Colorado CO						
7 Connecticut CT						
8 Delaware DE						
9 Dist. Columbia DC						
10 Florida FL						
11 Georgia GA						
12 Hawaii HI						
13 Idaho ID						
14 Illinois IL						
15 Indiana IN						
16 Iowa IA						
17 Kansas KS						
18 Kentucky KY						
19 Louisiana LA						
20 Maine ME						

UNDERWRITING AND INVESTMENT EXHIBIT — PRODUCTS LIABILITY

PART 2 — PREMIUMS EARNED

1. Net premiums written per line 4, Part 2C	
2. Unearned premiums December 31, previous year	
3. Unearned premiums December 31, current year per line 7, Part 2B	
4. Premiums earned during year (Lines 1 + 2 — 3)	

PART 2A — PREMIUMS IN FORCE

1. In force, December 31, last year without deducting reinsurance	
2. Premiums written or renewed during year, per lines 1 and 2, Part 2C	
3. Excess of original premiums over amount received for additional premiums and reinsurance	
4. Deduct expirations and excess of original premiums over return premiums on cancellations	
5. In force at end of year (Lines 1 + 2 + 3 — 4)	
6. Deduct reinsurance in force, authorized and unauthorized companies	
7. Net premiums in force (Lines 5-6)	

PART 2B — RECAPITULATION OF ALL PREMIUMS

+ Gross premiums (less reinsurance) and unearned premiums on all unexpired risks and reserve for return premiums under rate credit or retrospective rating plans based upon experience, viz:

1. Premiums in force running one year or less from date of policy	
2. Amount unearned running one year or less from date of policy*	
3. Premiums in force running more than one year from date of policy	
4. Amount unearned running more than one year from date of policy*	
5. Advance premiums (100%)	
6. Reserve for rate credits and retrospective returns based on experience	
7. Total reserve for unearned premiums (Lines 2 + 4 + 5 + 6)	

+ By gross premiums is meant the aggregate of all the premiums written in the policies or renewals in force. Are they so returned in this supplement? Answer

* State here basis of computation used in each case

PART 2C — PREMIUMS WRITTEN

Gross premiums (less return premiums), including policy and membership fees, written and renewed during year

1. Direct business	
2. Reinsurance assumed	
3. Reinsurance ceded	
4. Net premiums written (lines 1 + 2 — 3)	

UNDERWRITING AND INVESTMENT EXHIBIT — PRODUCTS LIABILITY

PART 3—LOSSES PAID AND INCURRED

Losses Paid Less Salvage:	
1. Direct Business	
2. Reinsurance Assumed	
3. Reinsurance Recovered	
4. Net Payments (Lines 1 + 2 — 3)	
5. Net Losses Unpaid Current Year (Part 3A Line 5)	
6. Net Losses Unpaid Previous Year	
7. Losses Incurred Current Year (Lines 4 + 5 — 6)	
8. Ratio Losses Incurred to Premiums Earned (Line 7 ÷ Line 4 Part 2)	

PART 3A — UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

Adjusted or in Process of Adjustment:	
1a Direct	
1b Reinsurance Assumed	
2. Deduct Reinsurance Recoverable from Authorized and Unauthorized Companies	
3. Net Losses Excluding Incurred But Not Reported (Lines 1a + 1b — 2)	
Insured But Not Reported	
4a Direct	
4b Reinsurance Assumed Less Ceded	
5. Net Losses unpaid Excluding Loss Adjustment Expenses (Lines 3 + 4a + 4b) per Schedule P, Part 1, Column 9 total	
6. Unpaid Loss Adjustment Expenses per Schedule P, Part 1, Column 10 total	

INSURANCE EXPENSE EXHIBIT — PART II — PRODUCTS LIABILITY

A. PREMIUMS, LOSSES, EXPENSES AND NET INCOME, AND RATIOS TO EARNED PREMIUMS.	Amount	%
--	--------	---

3.	Net Losses Incurred (Part 3, Line 7)	
4.	Loss Adjustment Expenses Paid	xxx
5.	Loss Adjustment Expenses Incurred	
6.	Commission and Brokerage Incurred	
7.	Other Acquisition, Field Supervision and Collection Expenses Incurred	
8.	Boards, Bureaus and Associations Expenses Incurred	
9.	Other General Expenses Incurred (Line 10 minus Line 8)	
10.	General Expenses Incurred	
11.	Taxes, Licenses and Fees Incurred	
12.	Total Expenses Incurred (Lines 5, 6, 7, 10 and 11)	
13.	Net Investment Gain or Loss and Other Income**	
14.	Dividends to Policyholders	
15.	Net Income before federal and foreign income taxes (Line 2 plus 13 minus 3, 12 and 14)	

B. ADJUSTED DIRECT PREMIUMS AND EXPENSES (SEE NOTE C) AND RATIOS TO ADJUSTED DIRECT PREMIUMS.

16.	Direct Premiums Written (Part 2C, Line 1)	xxx
17.	Adjusted Direct Premiums Written (See Note C)	100.0
18.	Direct Commission and Brokerage Incurred	xxx
19.	Adjusted Direct Commission and Brokerage Incurred (See Note C)	
20.	Other Acquisition Expenses Incurred (Line 7) ratio to Line 17	xxx
21.	General Expenses Incurred (Line 10) ratio to Line 17	xxx
22.	Taxes, Licenses and Fees Incurred (Line 11) ratio to Line 17	xxx
23.	Adjusted Direct Premiums Earned	100.0
24.	General Expenses (Line 10) ratio to Line 23	xxx

NOTE C — To relate equitably expenses incurred to premiums, where pooling agreements or similar arrangements exist between companies within a group and where companies operate, through pools or associations and each company participates in the expenses on a basis of a fixed percentage, each company's direct premiums, for the purpose of this exhibit shall be adjusted to produce its participation in the aggregate direct premiums of the group and further adjusted by substituting for the actual direct premiums on business written through associations, the participation of the company in the aggregate direct premiums of all members of each such association. No adjustment shall be necessary where the premiums of any syndicate or pool, included in direct premiums written (Part 2C, Line 1) amount to less than 2% of the total direct premiums written.

Earned Premiums (Line 23) may be obtained by assuming the same ratios to Line 17 as earned to written ratios on a net basis.

NOTE that commissions shall be adjusted to correspond with the adjusted premiums.

**Instructions for Allocating Net Investment Gain or Loss and Other Income to the Lines of Business for Line 13.

- A. Adjusted mean invested assets = Annual Statement Page 2, Lines 1 + 3 + 4 + 5 + 6 + 7 for current and prior years divided by 2.
- B. Adjusted investment income = Annual Statement Page 6, Part 1, Column 8, Lines 10 - 11 - 12 - 2.1 - 2.11 - 2.2 - 2.21.

- C. Adjusted Acquisition Expenses = IEE Part II Lines 6 + 7 + 11 plus 1/2 of Line 10.
- D. Written Premium = IEE Part II Line 1.
- E. Agents balances = Annual Statement Page 2, Lines 8.1 + 8.2 + 9 + 10.
- F. Unearned premiums = Annual Statement Page 3, Line 10.
- G. Adjusted mean unearned premiums attributable to each line of business = $(\frac{1}{2}(\frac{C}{D} + \frac{E}{F})) \times \text{Part 3A, Columns 5 + 6} + (\frac{1}{2} \text{ Part 3, Column 6}) + (\frac{1}{2} \text{ previous Part 3A, Column 6})$, for the appropriate line of business.
- H. 2. Lines 2 + 3. If negative, set equal to zero. Limit to a maximum of 1/2, Part 2, Lines 2 + 3. Adjusted mean loss and loss expense reserves attributable to each line of business = $(\frac{1}{2} \text{ Part 3A, Columns 5 + 6}) + (\frac{1}{2} \text{ Part 3, Column 6}) + (\frac{1}{2} \text{ previous Part 3A, Column 6})$, for the appropriate line of business.
- I. Investment income attributable to each line of business = $(G + H) \times B \div A$.
- J. Investment income attributable to capital and surplus accounts = Annual Statement Page 4, Line 8, less the sum of I for all lines of business.
- K. Realized capital gains attributable to capital and surplus accounts = Annual Statement Page 4, Line 9.
- L. Other Income attributable to each line of business = Annual Statement Page 4, Lines (5 + 17) \div (Annual Statement Page 4, Line 1) \times (Part 2, Line 4).

Interrogatory: Has Line 13 above been completed in accordance with these instructions: Answer . . . If not, explain:

SCHEDULE P — PART 1 — PRODUCTS LIABILITY

1 Years in Which Premiums Were Earned and Losses Were Incurred	2 Premiums Earned	3 Loss Payments	(d) Loss Expense Payments				6 Loss and Loss Expense Payments (3 + 4 + 5)	7 Ratio 6 ÷ 2 %	8 Number of Claims Outstanding	9 Losses Unpaid	10 (d) Loss Expense Unpaid	11 Total Losses and Loss Expense Incurred (6 + 9 + 10)	12 Ratio 11 ÷ 2 %
			4 Allocated	4a Ratio 4 ÷ 3 %	5 (g) Unallocated	5a Ratio 5 ÷ 3 %							
1 Prior to 1979													
2 1979													
3 Totals													XXX

(d) The term "loss expense" includes all payments for legal expenses, including attorney's and witness fees and court costs, salaries and expenses of investigators, adjusters and field men, rents, stationery, telegraph and telephone charges, postage, salaries and expenses of office employees, home office expenses and all other payments under or on account of such injuries, whether the payments are allocated to specific claims or are unallocated. Are they so reported in this supplement? Answer:

(g) The unallocated loss expense payments paid during the most recent calendar year should be distributed to the various years in which losses were incurred as follows: (1) 45% to the most recent year, (2) 5% to the next most recent year, and (3) the balance to all years, including the most recent, in proportion to the amount of loss payments paid for each year during the most recent calendar year. If the distribution in (1) or (2) produces an accumulated distribution to such year in excess of 10% of the premiums earned for such year, disregarding all distributions made under (3), such accumulated distribution should be limited to 10% of premiums earned and the balance distributed in accordance with (3). Are they so reported in this supplement? Answer:

SCHEDULE P — PART 2* — PRODUCTS LIABILITY

1 Years in Which Losses Were Incurred	Incurred Losses and Loss Expense Reported at end of year (000 omitted)						(b) Incurred Loss and Loss Expense Ratio Reported					
	2 1974	3 1975	4 1976	5 1977	6 1978	7 1979	8 1974	9 1975	10 1976	11 1977	12 1978	13 1979
1 Prior to 1974							XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
2 1974												
3 Cumulative Total							XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
4 1975	XXXX						XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
5 Cumulative Total	XXXX						XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
6 1976	XXXX	XXXX					XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
7 Cumulative Total	XXXX	XXXX					XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
8 1977	XXXX	XXXX	XXXX				XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
9 Cumulative Total	XXXX	XXXX	XXXX				XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
10 1978	XXXX	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
11 Cumulative Total	XXXX	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
12 1979	XXXX	XXXX	XXXX	XXXX	XXXX		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX

SCHEDULE P — PART 3* — PRODUCTS LIABILITY

Calendar Year Premiums Earned, Accident Year Loss and Loss Expense Incurred

	Dollars (000 omitted)							Percentages						
	1 1973	2 1974	3 1975	4 1976	5 1977	6 1978	7 1979	8 1973	9 1974	10 1975	11 1976	12 1977	13 1978	14 1979
Summary Data from Schedule P — Part 1														
1 Premiums Earned								100.0	100.0	100.0	100.0	100.0	100.0	100.0
2 Loss & Loss Exp. Inc'd.														
Loss & Loss Expense through 1 year														
3 Paid														
4 Reserve (2) — (3)														
Loss & Loss Expense through 2 years														
5 Paid							XX							XX
6 Reserve (2) — (5)							XX							XX
Loss & Loss Expense through 3 years														
7 Paid						XX	XX						XX	XX
8 Reserve (2) — (7)						XX	XX						XX	XX
Loss & Loss Expense through 4 years														
9 Paid					XX	XX	XX					XX	XX	XX
10 Reserve (2) — (9)					XX	XX	XX					XX	XX	XX
Loss & Loss Expense through 5 years														
11 Paid				XX	XX	XX	XX				XX	XX	XX	XX
12 Reserve (2) — (11)				XX	XX	XX	XX				XX	XX	XX	XX

* Completion of data for years prior to 1979 is optional.

APPENDIX E

ARIZONA. Ariz. Rev. Stat. Ann. sec. 20-223.01 (Supp. 1979):

Annual Report of Product Liability Insurer.

At the time of filing the annual report each insurer providing product liability insurance or excess insurance above self-insured retention for product liability, either as a separate policy or as part of a package, to one or more manufacturers or sellers in this state shall file with the director a report of the product liability claims made against its insureds, located in this state, which have been closed during the preceding calendar year. This section shall not require the reporting of any information regarding claims closed prior to June 30, 1978. Each report shall be in such form and provide such information as may be required by the director under appropriate rules and regulations promulgated by the director.

CONNECTICUT. 1979 Conn. Legis. Serv., P.A. 79-483, sec. 10:

Each insurance company offering product liability insurance in this state shall, annually, on or before the first day of May, file with the insurance commissioner a report concerning its aggregate Connecticut and aggregate national experience with product liability claims and cancellations of coverage for the year next preceding, except that any such report filed on or before May 11, 1980, shall contain such experience information for the four calendar years next preceding such filing. Such annual report shall contain a record of the total number of product liability claims closed during such calendar year and the total number of claims reported during such calendar year, the total amounts paid in settlement or discharge of claims, the number of claims closed without payment, the amount of reserves for product liability claims, the amount of premiums collected, the number of insureds whose product liability coverage was cancelled or nonrenewed by the insurer and any other information that may be required by the insurance commissioner.

FLORIDA. Fla. Stat. Ann. sec. 624.433 (Supp. 1980):

Reports of Information by Products Liability Insurers Required.

(1) Any insurer authorized to write a policy of products liability insurance in the state shall transmit the following information, based on its nationwide products liability insurance writings, to the department each year in the annual report of such insurer:

- (a) Premiums written;
- (b) Premiums earned;
- (c) Unearned premiums;
- (d) The dollar amount of claims paid;
- (e) Incurred claims, not including claims incurred but not reported;
- (f) Claims closed without payment, and the amount reserved for such claims;
- (g) Loss reserves for all claims except claims incurred but not reported;
- (h) Reserves for claims incurred but not reported;
- (i) Losses paid as a percentage of the amount reserved for such losses;
- (j) Net investment gain or loss and other income gain or loss allocated to products liability lines according to the allocation formula used in The Annual Insurance Expense Exhibit;
- (k) Underwriting income or loss;
- (l) Actual expenses in detail, including, but not limited to, loss adjustment expense, commissions, general expense, and advertising, home office, and defense costs;
- (m) Claims settled after a suit was filed;
- (n) Claims paid based on a judgment; and
- (o) Judgments appealed by the insurer, together with the total results of such appeals.

(2) The department shall provide a summary of information provided pursuant to subsection (1) in its annual report.

(3) In the first year that an insurer makes a report pursuant to subsection (1), the insurer shall provide only the information required by paragraphs (a) through (l) of subsection (1), and shall provide such information for the current year and the 3 previous years.

GEORGIA. Ga. Code Ann. sec. 56-319.1 (Supp. 1980):

Insurers Providing Product Liability Insurance or Other Lines of Insurance in this State; Reports Required.

On or before March 1 of each year commencing in 1979 or at such other dates as the commissioner may require, each insurer authorized to transact product liability insurance or to provide excess insurance above self-insured retention to one or more manufacturers, wholesalers, distributors or retailers or to transact other lines of insurance in this State shall provide the commissioner with such reports of its affairs and operations regarding insurance covering insured persons, resident or located in this State, for the last preceding calendar year ending on December 31 or for other periods of time as the commissioner may require. These reports shall be made in such form and shall contain such information as the commissioner may by regulation or by order from time to time prescribe which as to product liability insurers may include but shall not be required to be limited to the following information:

(1) The total number of product liability claims, broken down by:

(A) The type or category of claims; and

(B) Whether the claims were:

(i) Reported during a prior period and closed during the reporting period.

(ii) Reported and closed during the reporting period.

(iii) Reported and not closed during the reporting period.

(2) The total amount paid in settlement or discharge of the claims for each type or category of claims.

(3) The total amount of reserves available to pay those product liability claims which were reported for the last preceding year: Provided however that the information on reserves shall be required to be maintained by the Insurance Commissioner in confidence except that summaries of the combined totals of such reserves shall be subject to inspection by members of the General Assembly upon request.

(4) The total amount of premiums received from insured persons, resident or located in this State, which is

attributable to product liability insurance and which must be classified separately with respect to manufacturers, wholesalers or distributors, and retailers.

(5) The total amount of insured persons, resident or located in this State, for which such product liability insurance has been provided which must be classified separately with respect to manufacturers, wholesalers or distributors, and retailers.

(6) The total number of insured persons, resident or located in this State, whose product liability insurance coverage the insurer cancelled or refused to renew and the reasons therefor which must be classified separately with respect to manufacturers, wholesalers or distributors, and retailers.

(7) The total number of insured persons, resident or located in this State, who failed to renew their product liability insurance policies during the reporting period which information must be classified separately with respect to manufacturers, wholesalers or distributors, and retailers.

IDAHO. Idaho Code sec. 41-336A (Supp. 1979):

Statistical Reports.

(1) As a condition of doing business in the state of Idaho each insurer transacting insurance covering:

. . . .

(c) Liability for the manufacture, design, production, processing or modification of any product;

. . . .

shall report to the director such statistics as the director may designate by rule or regulation. The statistics shall be reported to the director annually, by the first day of March, for the preceding year ending December 31.

(2) The reports required by subsection (1) above shall include, but shall not be limited to, the following for each insurer for each type of insurance for which a report is required:

(a) Number of exposures;

(b) Direct premiums written;

(c) Direct premiums earned;

(d) Direct losses paid

(i) amount,

(ii) number of claims;

(e) Direct losses incurred;

(f) Direct losses unpaid

(i) amount reported,

(ii) number of claims; and

(g) Net losses incurred but not reported.

ILLINOIS. Ill. Ann. Stat. ch. 73, sec. 1201 (Supp. 1980):

Products Liability Insurers - Report to Director.

Every insurer authorized to transact business in this State and providing product liability insurance shall on the first day of January of each year or within 60 days thereafter file with the Director of Insurance a report containing the information hereinafter specified. Such report shall be made upon forms provided by the Director of Insurance and shall request the following information:

(a) The name of the insurance company.

(b) The name of all other companies associated with the company submitting the report, as either a holding company, parent, wholly owned subsidiary, division, or through interlocking directorates.

(c) The various kinds of product liability insurance a company offers.

(d) The states in which the company has been admitted for product liability insurance.

(e) The total premium dollar amount collected for all product liability insurance in Illinois in each of the 6 years next preceding the initial report or in the year preceding the filing of each annual report thereafter.

(f) The amount in dollars of product liability premiums for primary coverage and for excess coverage in Illinois.

(g) Each company shall report to the Director of Insurance for each of the 2 years next preceding the initial report and for the year next preceding the filing of each annual report thereafter any claim or action for damages for personal injury, death or property damage claimed to have been by reason of a defect in such insured's product, if the claim resulted in:

- (1) a final judgment in any amount;
- (2) a settlement in any amount; or
- (3) a final disposition not resulting in payment on behalf of the insured.

Every insurer authorized to transact business in this State shall be subject to the provisions of this Section in regard to claims adjudicated, settle or disposition made pursuant to the laws of this State.

(h) The reports required by subsection (g) shall contain

- (1) type of product;
- (2) rating classification code of products liability coverage;
- (3) date of occurrence which created the claim, including the state or other jurisdiction under whose jurisdiction the claim was adjudicated, settled, or disposition made;
- (4) date of suit if filed;
- (5) date and amount of judgment or settlement, if any, and the parties involved in the distributions of such judgment or settlement and the amount received by any such party;
- (6) date and reason for final disposition if no judgment or settlement;
- (7) a summary of the occurrence which created the claim;
- (8) total number of claims;
- (9) total claims closed without payment;
- (10) total claims closed with payment;
- (11) total amount of payments;

- (12) total number of suits filed;
- (13) total number of verdicts or judgments for defendants;
- (14) total number of verdicts or judgments for plaintiffs;
- (15) total amounts for plaintiffs; and
- (16) such other information as the Director may require.

. . . .

KANSAS. Kan. Stat. Ann. sec. 40-1130 (Supp. 1979):

Annual Reports to Commissioner by Product Liability Insurers;
Contents.

Every insurer authorized to transact business in this state and providing product liability insurance shall on the first day of Janury of each year or within sixty (60)days thereafter file with the commissioner of insurance a report containing the information hereinafter specified. Such report shall be made upon forms provided by the commissioner of insurance and shall request the following information:

- (a) The name of the insurance company.
- (b) The name of all other companies associated with the company submitting this report, as whether a holding company, parent, wholly owned subsidiary, division, or through interlocking directorates.
- (c) The various lines of insurance a company offers.
- (d) The states in which the company has been admitted for product liability insurance.
- (e) The total premium dollar amount collected for all lines of insurance in Kansas and in all states in each of the six years next preceding the initial report or in the year next preceding the filing of each annual report thereafter.
- (f) The dollar amount collected in product liability premiums in Kansas and in all states beginning with calendar year 1977.

(g) The amount in dollars of product liability premiums for primary coverage and for excess coverage in Kansas and in all states.

(h) The amounts shown in answer to subsection (f) which include premises and operations insurance or any other insurance delivered as part of a package which cannot be considered exclusively product liability insurance and the amounts which are non product liability insurance. Such amounts shall be listed separately for amounts relating to experience in all states and amounts relating to experience in Kansas only.

(i) Each company shall report to the commissioner of insurance for the period July 1, 1977, to December 31, 1977, at the time of filing its annual report for the year 1977 and for the year next preceding the filing of each annual report thereafter any claim or action or damages for personal injury, death or property damage claimed to have been by reason of a defect in such insured's product under a product liability policy, if the claim resulted in:

(1) A final judgment in any amount;

(2) A settlement in any amount; or

(3) A final disposition not resulting in payment on behalf of the insured. Every insurer authorized to transact business in this state shall be subject to the provisions of this section in regard to claims adjudicated, settled or disposition made pursuant to the laws of this state.

(j) The reports required by subsection (i) shall contain:

(1) The name and address of the insured or the insurer's claim number or file number;

(2) type of product;

(3) rating classification code of products liability coverage;

(4) the date of occurrence which created the claim, including the state or other jurisdiction under whose jurisdiction the claim was adjudicated, settled, or disposition made;

(5) date of suit if filed;

(6) date and amount of judgment or settlement, if any, and the number of parties involved in the distributions of such judgment or settlement and the amount received by each;

(7) date and reason for final disposition if no judgment or settlement;

(8) a summary of the occurrence which created the claim;

(9) total number of claims;

(10) total claims closed without payment;

(11) total claims closed with payment;

(12) total amount of payments;

(13) total number of suits filed;

(14) total number of verdicts or judgments for defendants;

(15) total number of verdicts or judgments for plaintiffs;

(16) total amounts for plaintiffs; and

(17) such other information as the commissioner may require.

. . . .

(m) Whether or not the company sets reserves for product liability claims filed.

(n) Whether or not the company sets reserves for product liability claims for losses which have been incurred but not reported (IBNR).

(o) All reserves established in connection with the company's product liability line.

(p) How dollars reserved are treated in each of the categories listed in subsections (m), (n), and (o) for federal income tax purposes.

(q) With respect to amounts paid in claims for the year next preceding the filing of each annual report, each company shall provide the following information:

(A) Total amounts reserved with respect to those claims;

(B) the year in which the reserves were set; and

(C) the amounts set in each year.

(r) The value of the securities held in your investment portfolio as of December 31 of the year next preceding the filing of each annual report. Such information should be submitted in the same manner as provided by K.S.A. 40-225.

(s) Any published annual reports to shareholders or policy holders shall be submitted with the report.

LOUISIANA. La. Rev. Stat. sec. 22: 1451.1 (Supp. 1980)

Annual Reports, Product Liability Insurers.

A. On or before June 1 of each year, commencing in 1980 or at such other dates as the commissioner may require, each insurer authorized to transact product liability insurance or to provide excess insurance above self-insured retention or to transact other lines of insurance in this state shall submit to the commissioner such reports of its affairs and operations regarding the product liability claims experience for claims made in the state of Louisiana and insurance covering insured persons transacting business in this state, for the last preceding calendar year ending on December 31 or for other periods of time, as the commissioner may require. These reports shall be made in such form and shall contain such information as the commissioner by regulation or order from time to time may prescribe and, as to product liability insurers, shall include but shall not necessarily be limited to the following information:

(1) The total number of product liability claims:

(a) Classified separately with respect to:

1 Manufacturers,

2 Wholesalers or distributors,

3 Retailers, and

4 Aggregate group consisting of all insureds not falling within the above classification.

(b) The number of new claims during the reporting claims period, and

(c) The number of claims closed during the reporting period, and

(d) The number of outstanding claims at the end of the reporting period.

(2) The total amount of losses incurred during the reporting period for each classification of claim.

(3) The total amount of reserves available to pay those product liability claims which were reported for the last preceding year

(4) The total amount of earned premiums received from insured persons transacting business in this state, which is attributable to product liability insurance and which shall be classified in the same manner as information reported under (1)(a) above.

(5) The total number of insured persons, resident or located in this state, for which such product liability insurance has been provided, which shall be classified in the same manner as information reported under (1)(a) above.

(6) The total number of insured persons, resident or located in this state, whose product liability insurance coverage the insurer cancelled or refused to renew and the reasons therefor, which shall be classified in the same manner as information reported under (1)(a) above.

B. The commissioner will issue reporting forms to insurers for any reports required under this Section. Such forms must be distributed at least 60 days prior to the due date of the report. With the approval of the commissioner, insurers may modify the form or design an alternate form.

C. The commissioner shall review the reporting requirements under this Section periodically, at intervals of not less than two years. As part of the review the commissioner shall issue a report to the legislature, which shall include but shall not necessarily be limited to the following information:

(1) The cost to insurers of providing such reports;

(2) The costs to the department to collect and process the reports;

(3) The benefits that can be achieved through the continuation of such reports;

(4) Recommendations, if any, to discontinue any of the reporting requirements under this Section.

MAINE. Bulletin 124. Frank M. Hogerty, Jr., Superintendent of Insurance

Annual Statement Filing - Supplemental Report of Products - Completed Operations - April 5, 1978.

All property and casualty insurers authorized in this State will be required to file with the Bureau of Insurance a supplemental report on Products - Completed Operations experience as an addendum to the Exhibit of Premiums and Losses for Maine Business (Page 14 of the Annual Statement). This supplemental report must provide premiums and losses for both bodily injury and property damage.

This report will be made together with the Annual Statement filings for the year 1978, due March 1, 1979, and will continue in subsequent years.

MICHIGAN. Mich. Stat. Ann. sec. 24. 12477(1) (Supp. 1980):

Products Liability and Municipal Liability Insurers, Information Furnished Commissioner.

(1) Each insurer providing products liability and municipal liability insurance to an insured in this state shall submit the following data to the commissioner at the time prescribed in this section. The data shall be provided with respect to any complaint filed against a products liability or municipal liability insured in any court, if the complaint seeks damages for personal injury claimed to have been caused by any of the following:

(a) With respect to a products liability insured, an alleged defect in the plan, design, manufacture, inspection, testing, labeling, or packaging of a product or alleged breaches of duty with regard to warnings or instructions concerning a product.

. . . .

Furnishing of Information within 30 Days of Answer

(2) The following data and information shall be furnished to the commissioner pursuant to subsection (1) within 30 days after the filing of an answer on behalf of the insured:

(a) The name of the insured.

(b) The policy number.

(c) The policy limits.

(d) The type of product involved, classified according to the standard industrial classification, as defined by the United States Department of Commerce.

. . . .

(f) The date of the incident giving rise to the complaint for damages.

(g) The date the complaint was filed.

(h) The court in which the complaint was filed and the docket number of the case.

(i) Other defendants named in the complaint.

(j) A copy of the answer filed on behalf of the insured.

(k) To the extent the insurer has knowledge, the name of any other insurer providing products liability or municipal liability coverage with respect to the case, whether excess coverage or otherwise, including the other insurer's policy number and limits of liability, if known.

(l) Other information as the commissioner requires.

Furnishing of Information within 30 Days of Disposition.

(3) The following data and information shall be furnished to the commissioner within 30 days after any judgment, settlement, or other dismissal involving the insured:

(a) The date of the judgment, settlement, or other dismissal.

(b) Whether an appeal has been taken and by which party.

(c) The amount of judgment against the insured.

(d) The amount of any settlement paid on behalf of the insured, whether the settlement as negotiated before or after the filing of a complaint for damages, and whether the settlement was negotiated before or after trial of the matter began.

(e) If consideration was not paid on behalf of the insured and a judgment of no cause for action was not entered, the reason for the dismissal.

(f) Other information as the commissioner requires.

. . . .

MINNESOTA 1977 Minn. Laws. ch. 316, sec. 2, as amended by 1978 Minn. Laws, ch. 644, sec 1:

Transitional provisions:

Subdivision 1. On or before March 15 of each year each insurer licensed to write general liability insurance and each surplus line insurer shall file with the commissioner of insurance a report which shall contain, but need not be limited to, the following information for product liability policies written in Minnesota for the one year period ending December 31 of the previous year: the total number of product liability policies issued, the amount of product liability coverage issued, the total number of product liability claims, broken down by the type or category of claims, the total amount paid in settlement or discharge of the claims for each type or category of claims, and the total amount paid for attorney's fees, court costs and any other litigation-related expenses for each type or category of claims.

Subdivision 2. On or before March 15 of each year each insurer licensed to write general liability insurance and each surplus line insurer shall file with the commissioner of insurance a report containing the following information for the one year period ending December 31 of the previous year:

- (a) The total amount of premiums received from policies written in Minnesota, which are attributable to product liability insurance whether written as a separate policy or as part of a package policy covering other risks of loss;
- (b) The total number of persons, resident or located in Minnesota, for which the insurer provided products liability insurance; and
- (c) The total number of persons, resident or located in Minnesota, whose product liability insurance coverage the insurer cancelled or refused to renew and the reasons therefor.

Any manufacturer, seller or distributor which is uninsured or wholly self-insured or which has only excess insurance coverage for claims exceeding \$50,000 or for the total of all claims exceeding \$50,000 shall be considered to be an insurer for the purposes of this section and shall comply with the reporting requirements of this section, and any data reported by a self-insured person pursuant to this section may be reported by the commissioner only in the form of summary data, as defined in Minnesota Statutes, Section 15.162, Subdivision 9.

Subdivision 3. Any insurance company required to file reports under this section which fails to file a report, containing the data and within the time prescribed by this section , shall be subject to a penalty of \$10 for each day in default.

Subdivision 4 this section expires April 1, 1981.

MISSOURI. Mo. Ann. Stat. sec. 374.415 (Supp. 1980):

Product Liability Insurance Reports Required - When -
Contents - Certain Information not to be Disclosed.

1. As used in sections 374.400 to 374.425 "product liability insurance" or "product liability policy" means:

- (1) Any policy of insurance insuring only the insured's legal obligation arising from the product liability exposure of the insured;
- (2) Any other policy of liability insurance in which the premium computation includes a specific premium charge for product liability exposures of the insured; and
- (3) Any other insurance policy designated by the commissioner of insurance as providing product liability insurance.

2. Every insurer authorized to transact business in this state and providing product liability insurance shall on the first day of January of each year in which said insurer actually provides product liability insurance in Missouri or within sixty days thereafter file with the director of insurance a report containing the information hereinafter specified; provided, however, insurers are not required to report product liability information pursuant to sections 374.400 to 374.425 for business incidental to the operation of affiliated companies or organizations. Such report shall be made upon forms provided by the director of insurance and shall request the following information:

- (1) The name of the insurance company;
- (2) The name of all other companies associated with the company submitting the report, as either a holding company, parent, wholly owned subsidiary, division, or through interlocking directorates;
- (3) All the lines of insurance a company offers in all states;

(4) The states in which the company has been admitted for product liability insurance;

(5) The total premium dollar amount collected for all lines of insurance in Missouri and in all states in each of the five calendar years next preceding the initial report or in the year next preceding the filing of each annual report thereafter;

(6) The dollar amount collected each year in product liability premiums in Missouri and in all states beginning with calendar year 1978;

(7) The amount in dollars of product liability premiums for primary coverage and for excess coverage in Missouri and in all states;

(8) The amounts shown in answer to subdivision (6) which include premises and operations insurance or any other insurance delivered as part of a package which cannot be considered exclusively product liability insurance and the amounts which are nonproduct liability insurance. Such amounts shall be listed separately for amounts relating to experience in all states and amount relating to experience in Missouri only;

(9) Whether or not the company sets reserves for product liability claims filed;

(10) Whether or not the company sets services for product liability claims for losses which have been incurred but not reported;

(11) All reserves established in connection with the company's product liability line;

(12) How dollars reserved are treated in each of the categories listed in subdivisions (9), (10), and (11) for federal income tax purposes;

(13) The value of the securities held in the company's investment portfolio as of December thirty-first of the year next preceding the filing of each annual report.

3. In addition, each company shall report to the director of insurance for the year next preceding the filing of each annual report, beginning with the annual report for 1978, any claim or action for damages for personal injury, death or property damage claimed to have been by reason of a defect in such insured's product, if the claim resulted in:

(1) A final judgment in any amount;

(2) A settlement in any amount; or

(3) A final disposition not resulting in payment on behalf of the insured.

Every insurer authorized to transact business in this state shall be subject to the provisions of this section in regard to claims against policies issued to Missouri insureds, regardless of the jurisdiction under which these claims were adjudicated, settled or otherwise disposed of. Every insurer authorized to transact business in this state shall be subject to the provisions of this section in regard to claims adjudicated, settled or disposition made pursuant to the laws of this state regardless of the domicile of the insured.

4. The reports required by subsection 3 shall contain:

(1) The city and state of the insured;

(2) Type of product;

(3) Rating classification code of product liability coverage;

(4) Date of occurrence which created the claim, including the state or other jurisdiction under whose jurisdiction the claim was adjudicated, settled, or disposition made;

(5) Date of suit if filed;

(6) Date and amount of judgment or settlement, if any, and the parties involved in the distributions of such judgment or settlement and the amount received by any such party;

(7) Date and reason for final disposition if no judgment or settlement;

(8) A summary of the occurrence which created the claim;

(9) Total number of claims;

(10) Total claims closed without payment;

(11) Total claims closed with payment;

(12) Total amount of payments;

(13) Total number of suits filed;

(14) Total number of verdicts or judgments for defendants;

(15) Total number of verdicts or judgments for plaintiffs;

(16) Total amount for plaintiffs; and

(17) Such other information as the director may require.

5. With respect to amounts paid in claims for the year next preceding the filing of each annual report, each company shall provide the following information:

- (a) Total amounts reserved with respect to those claims;
- (b) The year in which the reserves were set; and
- (c) The amounts set in each year.

. . . .

MONTANA. Mont. Code Ann. sec. 33-2-721 (1979):

Product Liability Insurer--Report.

(1) Each insurance company doing business in this state that insures against product liability losses shall make and file with the department of insurance, on or before April 1 of each year, a report for the year ending December 31 immediately preceding, upon a form to be prescribed and that may be furnished by the department.

(2) The report shall include the following information:

- (a) the amount of product liability insurance premiums collected for the year, indicating the amount of premiums allocable to Montana and the total nationwide amount;
- (b) information for product liability insurance experience separately allocated to Montana and nationwide showing the:
 - (i) total amount of earned premiums;
 - (ii) total amount of incurred losses, including all loss adjustment expense;
 - (iii) amount of reserves for both reported and unreported incurred losses; and
 - (iv) amount of other reserves for other product liability losses; and
- (c) for any claim, loss or action for bodily injury, death, or property damage allocated to Montana experience if there has been a final judgment or a settlement in any amount or if there has been a final disposition not resulting in a loss payment on behalf of the insured:

- (i) a description of the type of product involved in each claim;
- (ii) the date of occurrence from which each claim arose;
- (iii) the state or other jurisdiction wherein each claim was adjudicated, settled, or other disposition made;
- (iv) the date legal action commenced, if filed;
- (v) a brief description of the occurrence out of which the claim arose;
- (vi) the total number of all claims;
- (vii) the total number of all claims closed without payments;
- (viii) the total number of final verdicts or final judgments for defendants;
- (ix) the total number of final verdicts or final judgments for plaintiffs; and
- (x) such other information as the department may require.

NEBRASKA. Neb. Rev. Stat. sec. 44-3,124 (Reissue 1978):

Product Liability Insurance; Insurance Company; Report; Contents; Enumerated.

Every insurance company doing business in this state which insures against product liability losses, unless otherwise provided by Chapter 44, shall make and file with the Department of Insurance, on or before April 1 of each year, a report for the year ending December 31 immediately preceding, upon a form to be prescribed and which may be furnished by the department, which form shall at least include the substance of the information as follows:

- (1) The name of the insurance company;
- (2) The kind or lines of insurance which the company writes and the states in which the company issues policies providing insurance against product liability losses;

(3) The amount of product liability insurance premium collected in Nebraska and nationwide beginning with calendar year 1978 on policies insuring only against product liability losses, on policies including insurance against product liability losses when the premium is divisible and identifiable and policies for excess coverage on product liability losses indicating the premium allocated to Nebraska and the total nationwide premium;

(4) The amount of product liability insurance premium not shown in response to subdivision (3) of this section for insurance which includes coverage for product liability when the premium is not divisible but is allocated for experience purposes, for Nebraska only and nationwide;

(5) Information for product liability insurance experience allocated to Nebraska and for product liability insurance experience nationwide showing

(a) total amount of earned premiums;

(b) total amount of incurred losses including all loss adjustment expense;

(c) amount of incurred losses including all loss adjustment expense represented by reserves other than incurred but not reported reserves; and

(d) amount of reserves represented by incurred but not reported reserves together with the formula used to develop such incurred but not reported reserves and the allocation thereof to each state; and

(6) For any claim, loss, or action for bodily injury, death or property damage allocated to Nebraska experience when there has been a final judgment, a settlement in any amount, or a final disposition not resulting in a loss payment on behalf of the insured, information as to

(a) each claim file number;

(b) description of type of product involved in each claim;

(c) rating classification code for the product involved in each claim;

(d) date of occurrence from which each claim arose;

(e) state or other jurisdiction wherein each claim was adjudicated, settled, or other disposition made;

- (f) date legal action commenced, if filed;
- (g) date and amount of final judgment or settlement, if any, and the number of plaintiffs or claimants involved in the disposition of the judgment or settlement together with the amount received by each such party;
- (h) date and basis for final disposition of each claim if no final judgment or settlement;
- (i) brief description of the occurrence out of which the claim arose;
- (j) total number of all claims;
- (k) total number of all claims closed without payments;
- (l) total number of claims closed with payments as a result of final judgment and total amount paid thereon;
- (m) total number of claims closed with payment based on a settlement prior to final judgment, if any suit filed, and total amount paid thereon;
- (n) total number of claims closed with payment based on a settlement prior to final judgment, and total amount paid thereon;
- (o) total number of suits filed;
- (p) total number of final verdicts or final judgments for defendants;
- (q) total number of final verdicts or final judgments for plaintiffs; and
- (r) such other information as the Department of Insurance may require.

NEVADA. 1979 Nev. Stats., ch. 378:

Products Liability: Reports to Commissioner.

SECTION 1 Chapter 690B of NRS is hereby amended by adding thereto a new section which shall read as follows:

On or before March 1 of each year, every insurer who issues policies of insurance covering the liability of manufacturers or sellers for defective products shall submit a report to the

commissioner on an approved claim reporting form.

NEW YORK. N.Y. Ins. Law sec. 167-(e) (Supp. 1979):

Reports of Claims for Product Liability and Reports of
Cancellation and Nonrenewal of Product Liability Insurance

1. Each insurance company engaged in issuing product liability insurance in this state as defined in section one hundred sixty-seven-b of this chapter shall file with the superintendent semi-annual reports of all claims for product liability made against any of its insureds and received by it during the preceding six month period together with a report of all information concerning the cancellation and nonrenewal of product liability insurance.

2. Such reports shall be in writing on a form prescribed by the superintendent and shall contain such information as the superintendent shall prescribe.

3. Such reports shall be made to the superintendent on dates determined by the superintendent.

. . . .

5. The superintendent shall furnish not later than the first day of June, nineteen hundred eighty, to the governor and the legislature a report containing (1) a summary of the data collected, (2) an assessment of the status of product liability insurance costs, and (3) recommendations, if appropriate, for statutory or administrative changes designed to reduce or contain such costs.

NORTH CAROLINA. N.C. Gen. Stat. sec. 58-21.1 (Supp. 1979):

Reporting of Products Liability Claims, Premiums, and Other
Information.

(a) Every insurance company providing products liability insurance or excess insurance above self-insurance to one or more manufacturers, sellers, or distributors in this State shall file with the Commissioner not later than the first day of June in each year, a report containing the following information for the one-year period ending December 31st of the previous year; provided, however, that information for the period preceding June 30, 1979, need not be reported:

(1) The total amount of earned premiums received during the year from insureds, resident or located in North Carolina, that are attributable to products liability insurance;

(2) The total number of policies of insureds, resident or located in North Carolina, for which the insurance company provided products liability insurance;

(3) The total number of insureds, resident or located in North Carolina, whose products liability insurance coverage the insurance company canceled or refused to renew and the reasons therefor;

(4) The total number of products liability claims filed during the one-year period, broken down by the type of claims;

(5) The total amount of reserves for the claims in subdivision (4) of this subsection that remained outstanding at the end of the one-year period;

(6) The total amount paid in settlement or discharge of the claims in subdivision (4) of this subsection for each type of claims;

(7) The total amount of outstanding reserves for claims filed in years prior to the one-year period; and

(8) The total amount of reserves for incurred but not reported losses.

The report shall be in the format established by the Commissioner.

. . . .

NORTH DAKOTA. N.D. Cent. Code sec. 26-01-02.4. (Supp; 1979):

Reporting of Product Liability Information.

Every insurance company providing product liability insurance or excess insurance above self-insurance to one or more manufacturers, sellers, or distributors in this state shall file with the commissioner of insurance, not later than the first day in April in each year, a report containing the following information for the one-year period ending December thirty-first of the previous year, except that information for the period preceding July 1, 1979, need not be reported.

(1) The name of the insurance company.

(2) The name of all other insurance companies associated with the company submitting the report.

(3) The states in which the company has been admitted for product liability insurance.

(4) The dollar amount collected in product liability earned premiums and the dollar amount of product liability incurred losses in this state and on a nationwide basis.

(5) The amounts shown in answer to subsection 4 which include any other insurance delivered as part of a package which cannot be considered exclusively product liability insurance.

(6) The total number of insureds, resident or located in North Dakota, for which the insurance company provided product liability insurance.

(7) The total number of insureds, resident or located in North Dakota, whose product liability insurance coverage the insurance company canceled or refused to renew and the reasons therefor.

(8) The percentage of product liability premiums that are incurred for the following:

(a) Losses, including all loss adjustment expenses ratioed to premiums earned.

(b) Commissions, ratioed to premiums written.

(c) Taxes, ratioed to premiums written.

(d) All other expenses, ratioed to premiums earned.

(e) The total of all expenses included in subdivisions a through d, ratioed to premiums earned.

(f) Profits and reserves, ratioed to premiums earned.

(9) The basis upon which the company allocates premiums received and losses incurred from a multistate product liability risk, whether it be assigned to the risk's state or domicile, allocated to each state in which the risk has a physical plant, allocated to each state on the basis of sales in each state, or allocated on some other basis.

The report shall be in the format established by the commissioner of insurance and a copy of the insurance company's most recent annual report to shareholders or policyholders shall be submitted with the report. If any of the required data is estimated, that fact shall be clearly indicated.

Product Liability Insurers to Submit Annual Reports to
Commissioner; Contents of Reports; Availability to Public.

(1) Every insurer authorized to transact buisness in this state and providing product liability insurance shall, on the first day of January of each year or within 60 days thereafter, file with the commissioner a report containing the information specified in this section. Such report shall be made upon forms provided by the commissioner and shall contain the name of the insurance company and the name of all other companies associated with the company submitting the report, either as a holding company, parent company, wholly owned subsidiary, division or through interlocking directorates.

(2) When filing the report required under subsection (1) of this section, each insurer shall provide, for the period January 1 to December 31 of the year next preceding the filing of the report, information relating to any claim or action for damages for personal injury, death or property damage claimed to have been caused by a defect in an insured's product under a product liability policy, if the claim resulted in a final judgment in any amount, a settlement in any amount or a final disposition not resulting in payment on behalf of the insured. Every insurer authorized to transact business in this state shall be subject to the provisions of this subsection in regard to claims adjudicated, settled or disposition made pursuant to the laws of this state.

(3) When a claim described in subsection (2) of this section has been made against an nsurer, the report of that insurer required under subsection (1) of this section shall contain:

(a) The name and address of the insured or the insurer's claim number or file number;

(b) The type of product;

(c) Rating classification code of products liability coverage;

(d) The date of occurrence which created the claim, including the state or oher jurisdiction under whose jurisdiction the claim was adjudicated, settled or disposition made;

(e) Date of suit, if filed;

(f) Date and amount of judgment or settlement, if any, and the number of parties involved in the distribution of such judgment or settlement and the amount received by each;

(g) Date and reason for final disposition if no judgment or settlement;

(h) A summary of the occurrence which created the claim;

(i) Total number of claims;

(j) Total claims closed without payment;

(k) Total claims closed with payment;

(l) Total number of payments;

(m) Total number of suits filed;

(n) Total number of verdicts or judgments for defendants;

(o) Total number of verdicts or judgments for plaintiffs;

(p) Total amounts for plaintiffs; and

(q) Such other information as the commissioner may require.

(4) With respect to amounts paid in claims for the year next preceding the filing of each annual report required under subsection (1) of this section, each shall provide the following information:

(a) Total amounts reserved with respect to those claims;

(b) The year in which the reserves were set; and

(c) The amounts set in each year.

(5) Any published annual reports to shareholders or policyholders shall be submitted with the report required under subsection (1) of this section.

. . . .

APPENDIX F

EXHIBIT 1



BRUCE BABBITT
GOVERNOR

STATE OF ARIZONA
DEPARTMENT OF INSURANCE

1601 WEST JEFFERSON
PHOENIX, ARIZONA 85007

J. MICHAEL LOW
DIRECTOR OF INSURANCE

June 2, 1980

Mr. John Flom
Department of Commerce
Room 5027
Washington, D. C. 20230

Re: Products Liability

Dear Mr. Flom:

This follows our conversation regarding your inquiries on Products Liability.

We have adopted a form which is part of the Annual Statement and breaks out the various forms of liability other than automobile. A copy is enclosed.

To give you a little background on the participation in the Products Liability field, some time around 1976 the State of Arizona had a Products Liability Market Assistance Program which met approximately once every two months to offer any buyer of Products Liability some relief in the event coverage was not available. The Committee is somewhat dormant at this time because during the period only one incident arose where a market was being sought, and that problem was cleared when the proprietor sold his business to a large corporate entity that already had the coverage.

We have no other task force at this time except the participation developed for this by the National Association of Insurance Commissioners.

I trust this is helpful, and if we can be of any further help to you, please call us.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Emil L. Barberich", is written over the typed name.

Emil L. Barberich
Chief Deputy Director

ELB:sc

encl.

(1)
DESIGNATED
TYPE OF HEALTH
CARE PROVIDER

[illegible]

EXHIBIT OF OTHER LIABILITY PREMIUMS WRITTEN

(1) CLASS	(2) NUMBER OF EXPOSURES	(3) DIRECT PREMIUMS WRITTEN*	(4) DIRECT PREMIUMS EARNED*	DIRECT LOSSES PAID		(7) DIRECT LOSSES INCURRED	DIRECT LOSSES UNPAID		(10) DIRECT LOSSES INCURRED BUT NOT REPORTED
				(5) AMOUNT	(6) NO. OF CLAIMS†		(8) AMOUNT REPORTED	(9) NO. OF CLAIMS†	
1 . CONTRACTUAL									
2 . LAWYERS PROFESSIONAL									
3 . MANUFACTURES & CONTRACTORS									
4 . O. L. & T.									
5 . OWNERS OR CONTRACTORS PROTECTIVE									
6 . PRODUCTS									
7 . ALL OTHER									
8 . Totals									

*Gross premiums, including policy and membership fees, less return premiums on policies not taken. Include in this Exhibit the other liability portion of any policy for which the pre-
miums for other liability are separately stated. Include all indivisible premium policies for which at least one-half of the premium is for other liability coverage.
†If a claim count is included in losses paid, it must not be included in losses unpaid, or vice versa.

Totals to agree with Line 17 of Page 14.

EXHIBIT 2



STATE OF CONNECTICUT

DEPARTMENT OF BUSINESS REGULATION

DIVISION OF INSURANCE

April 8, 1980

BULLETIN NO. RD80 4 1

TO: ALL INSURERS LICENSED TO WRITE PRODUCTS LIABILITY
INSURANCE IN THE STATE OF CONNECTICUT

SUBJECT: PRODUCT LIABILITY REPORT

Attached you will find a copy of the Product Liability
Report Form to be completed by the company.

Completion of this data is required in accordance with
P.A. 79-483.

The report must be filed on or before May 1, 1980 with
the Connecticut Insurance Department, P.O. Box 816, Hartford,
Connecticut 06115.

Inquiries may be directed to:

Mr. Walter Bell
Telephone: 203-566-3870

Very truly yours,

JOSEPH C. MIKE
Insurance Commissioner

A handwritten signature in cursive script that reads "WR DiSanto".

By: Waldo R. DiSanto
Chief, Rating Section

WRD/n
Attachment (1)

Phone: 203-566-4564

P.O. Box 816, State Office Building, Hartford, Conn. 06115

An Equal Opportunity Employer

Authority
Public Act 79-483
Section 10

STATE OF CONNECTICUT
1980 Product Liability Report Form
Connecticut Insurance Department
165 Capitol Avenue Hartford, Connecticut 06115

Bulletin No. RD80 4 1
Date Due: May 1, 1980

NAME OF INSURER OR INSURER GROUP

	1979	1978	1977	1976
	Nationwide	Connecticut	Nationwide	Connecticut
	Connecticut	Nationwide	Connecticut	Nationwide
	Connecticut	Connecticut	Connecticut	Connecticut
1. Total Premium Collected				
2. Number of Claims Reported				
3. Amount of Reserves Established				
4. Total Amount of Paid Claims				
5. Number of Claims Closed:				
5a. By payment				
5b. Without payment				
6. Reserves Cancelled:				
6a. By payment (5a)				
6b. Without payment (5b)				
7. Amount of Reserve at Year End				
8. Number of Policies: Cancelled/Non-renewed				

9. Name of person submitting report

10. Telephone number

11. Remarks

NOTE: Do not leave any box blank. Enter none where applicable.
Enter "Estimate" if actual data is not available.

EXHIBIT 3

Bill Gunter

STATE TREASURER
INSURANCE COMMISSIONER
FIRE MARSHAL



Office of Treasurer

Insurance Commissioner

STATE OF FLORIDA

TALLAHASSEE 32301

June 3, 1980

Mr. George Neidich
Department of Commerce
Room 5027
Washington, D. C. 20030

Dear Mr. Neidich:

Re: Product Liability F&C Bulletin 79-4

Someone in your Department has requested that we mail to you a copy of the above captioned subject.

Enclosed is a photo copy of the Product Liability F&C Bulletin 79-4.

If we may be of further assistance, please do not hesitate to let us know.

Sincerely,

Gene Belser

Gene Belser
Insurance Analyst
Bureau of Rates

GB:cp

Enclosure



Office of Treasurer

Insurance Commissioner

STATE OF FLORIDA

TALLAHASSEE 32304

February 27, 1979

F & C BULLETIN 79-4

TO: ALL INSURANCE COMPANIES AUTHORIZED TO WRITE
PRODUCTS LIABILITY INSURANCE IN THE STATE OF FLORIDA

FROM: BILL GUNTER, INSURANCE COMMISSIONER AND TREASURER

SUBJECT: CHAPTER 78-224, LAWS OF FLORIDA
(SENATE BILL 500)

The subject legislation, effective June 14, 1978, requires each insurer authorized to write products liability insurance in Florida to transmit certain information to the Department of Insurance each year with the Annual Statement of such insurer.

Such information is detailed on the attached reporting form and its accompanying set of instructions.

This public document was promulgated at a total cost of \$146 or 19¢ a copy advising companies writing products liability insurance of legislation requiring certain information to be transmitted to Insurance Department.

BG/ps
Attachments

FLORIDA DEPARTMENT OF INSURANCE

INSTRUCTION SHEET FOR FORM E

- A. Complete required information including the coding boxes at top of form.
- B. Data is to be separated by company.
- C. Negative money will be identified by placing in parenthesis.
- D. Data is based on countrywide products liability writings and entered in whole dollars.
- E. The first report is due on May 1, 1979, and requires separate submissions for each of calendar years 1975, 1976, 1977, and 1978 for items (1) through (25) inclusive.

The second and subsequent reports, for calendar years 1979 and beyond, will require completion of all thirty-one items on the form.

- F. With respect to data entries (20) and (21), calculation of investment and other income gain or loss contemplates the procedure used in the Insurance Expense Exhibit for other lines of insurance.
- G. Second and subsequent reports will be due on or before March 1 of each year.

FLORIDA DEPARTMENT OF INSURANCE
PRODUCTS LIABILITY INSURANCE REPORTING FORMCOMPANY CODE (FLORIDA CERTIFICATE OF AUTHORITY NUMBER)CALENDAR YEAR FCC IAC

COMPANY NAME _____

ADDRESS _____ ZIP _____

ENTER WHOLE DOLLARS
COUNTRYWIDE

- | | |
|---|----------|
| (1) NET PREMIUMS WRITTEN | \$ _____ |
| (2) NET PREMIUMS EARNED | \$ _____ |
| (3) NET UNEARNED PREMIUMS | \$ _____ |
| (4) NET PAID LOSSES | \$ _____ |
| (5) TOTAL OF INITIAL RESERVES FOR LOSSES PAID
IN ITEM (4), ABOVE | \$ _____ |
| (6) TOTAL OF PRE-CLOSING RESERVES FOR
LOSSES PAID IN ITEM (4), ABOVE | \$ _____ |
| (7) RESERVE FOR OUTSTANDING LOSSES AT END
OF YEAR EXCLUDING IBNR | \$ _____ |
| (8) RESERVE FOR OUTSTANDING LOSSES AT
BEGINNING OF YEAR EXCLUDING IBNR | \$ _____ |
| (9) RESERVE FOR IBNR AT END OF YEAR | \$ _____ |
| (10) RESERVE FOR IBNR AT BEGINNING OF YEAR | \$ _____ |
| <u>NET EXPENSES INCURRED</u> | |
| (11) DEFENSE COSTS | \$ _____ |
| (12) TOTAL LOSS ADJUSTMENT EXPENSE EXCLUDING
DEFENSE COSTS | \$ _____ |
| (13) COMMISSIONS | \$ _____ |
| (14) ADVERTISING | \$ _____ |
| (15) OTHER ACQUISITION EXCLUDING ADVERTISING | \$ _____ |
| (16) HOME OFFICE EXPENSE | \$ _____ |

PRODUCTS LIABILITY REPORTING FORM
FORM E
PAGE 2

- (17) GENERAL EXPENSE OTHER THAN HOME OFFICE
EXPENSE
- (18) TAXES, LICENSES, AND FEES
- (19) UNDERWRITING INCOME OR LOSS
- (20) NET INVESTMENT GAIN OR LOSS
- (21) OTHER INCOME GAIN OR LOSS
- (22) INCURRED CLAIM COUNT EXCLUDING IBNR
- (23) NUMBER OF CLAIMS CLOSED WITHOUT PAYMENT
- (24) TOTAL OF INITIAL RESERVES FOR CLAIMS
IN (23), ABOVE
- (25) TOTAL OF PRE-CLOSING RESERVES FOR
CLAIMS IN (23), ABOVE
- (26) CLAIM COUNT OF CLAIMS SETTLED AFTER
FILING OF SUIT
- (27) LOSSES PAID DUE TO CLAIMS IN (26), ABOVE
- (28) CLAIM COUNT OF CLAIMS PAID DUE TO
ADJUDICATION
- (29) LOSSES PAID DUE TO CLAIMS IN
(28), ABOVE
- (30) NUMBER OF JUDGMENTS APPEALED BY
ABOVE NAMED COMPANY
- (31) TOTAL DOLLAR INCREASE OR DECREASE
IN LOSSES AS A RESULT OF APPEALS IN
ITEM (30), ABOVE

\$ _____

\$ _____

\$ _____

\$ _____

\$ _____

\$ _____

\$ _____

\$ _____

*CONTROL TOTAL (SUM OF ITEMS (1) THROUGH (31))

EXHIBIT 4



JOHNNIE L. CALDWELL
COMPTROLLER GENERAL

OFFICE OF
COMPTROLLER GENERAL
STATE CAPITOL
ATLANTA, GEORGIA 30334

D I R E C T I V E

No. 78-R-4

TO: ALL INSURERS TRANSACTING PROPERTY AND CASUALTY
INSURANCE IN THE STATE OF GEORGIA

FROM: JOHNNIE L. CALDWELL
INSURANCE COMMISSIONER

DATE: DECEMBER 19, 1978

RE: PRODUCTS LIABILITY INSURANCE
REPORTING PROCEDURES

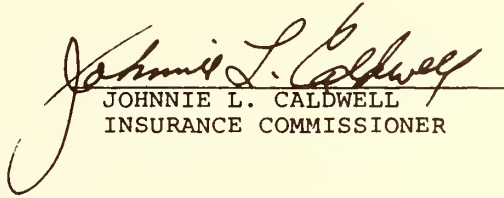
During the 1978 Session of the Georgia General Assembly, Senate Bill 513 passed and was approved as Act 1413 (codified as §56-319.1). This requires the reporting of certain products liability information and statistics to the Insurance Commissioner.

This Section provides that "each insurer authorized to transact products liability insurance or to provide excess insurance above self-insured retention to one or more manufacturers, wholesalers, distributors or retailers," in Georgia shall file annual reports on or before March 1 of each year, commencing in 1979.

To facilitate your compliance with the requirements imposed by this Act, this Department has developed a reporting form, GID-PLI-1, which will be used by each affected insurer to report the required products liability information to the Insurance Department. Since it is mandatory that a report be filed containing certain data, no waivers from remitting this filing with the Insurance Department will be permitted.

WHEREFORE, pursuant to §56-319.1 of the Georgia Insurance Code, you are Hereby Ordered to provide such information as is necessary to fully complete Form GID-PLI-1, a copy of which is attached.

I trust that this Directive is self explanatory. However, if you have any questions, please contact me at Room 238, State Capitol, Atlanta, Georgia 30334.


JOHNNIE L. CALDWELL
INSURANCE COMMISSIONER

GEORGIA INSURANCE DEPARTMENT

PRODUCTS LIABILITY INSURANCE

ANNUAL REPORT

Company or Group Name _____

Address, Including Zip Code _____

Name of Person Completing Questionnaire,
Including Telephone Number _____

For the purpose of this questionnaire the term "Products" shall be interpreted to include both Products and Completed Operations liability insurance.

SECTION I

1. Please furnish the following information:

- a. Attach a listing of all States in which your company writes Products Liability Insurance.
- b. Attach a listing of all States in which your company is licensed but in which your company does not write Products Liability Insurance. Please furnish an explanation as to why your company is not writing this insurance in these States.
- c. What is your company's current and proposed marketing plan for Product Liability Insurance in the various States listed in your response to Question 1. a.? Please be as specific and as comprehensive as possible. We are asking this question in order to determine your company's participation in this line of insurance and to be made aware of any significant changes your company may be planning.

2. Do you have any restrictions as to the kind of risks or the amount of insurance or other restrictions applicable in States in which your company does write Products Liability Insurance:

3. Does your company specialize in any class or type of Product Liability Insurance. (Please list.)

4. Please furnish the following information:

- a. which classes or types of product liability insurance are specifically excluded from your company's reinsurance treaties? Please list both the classes or types excluded and the companies excluding these classes or types.
- b. Of these specifically excluded classes, which classes will your company write on a facultative reinsurance basis?

(Note: States may want to also direct this question to reinsurers)

5. Does your company market products liability insurance through:
(Please x all applicable answers):

- a. Independent agents _____
- b. Brokers _____
- c. "Captive" agents or company sales representatives? _____
- d. Manufacturing or other specific trade associations?
(Please specify) _____
- e. Other? (Please elaborate) _____

6. Please specify your company's maximum net retention on any one product liability insurance policy--primary, umbrella, or excess.
(NOTE: If your retention varies, please explain.)

7. Please answer the following:

- a. Does your company write excess product liability insurance coverage above self-insured retention?
- b. Please explain any underlying requirements and limitations.

SECTION II - STATISTICS

FOR THE LATEST YEAR

1. In compiling statistics, in what kinds of policies are you able to segregate Products Liability premiums and losses?
(Please "X" all applicable policies)

<u>POLICIES</u>	<u>RETROSPECTIVELY</u>	<u>CURRENTLY</u>	<u>PROSPECTIVELY</u> <u>(ESTIMATE YEAR)</u>
a. Monoline (Products Only)			
b. Composite Rated			
c. Package			
d. Other (Please explain)			

2. Please furnish us with both countrywide and state Products Liability earned premiums and incurred losses for the last five years for which you have data available on a calendar/accident year basis including IBNR. If your company estimates any of the data, please clearly indicate that it is an estimate.

3. What is the percentage as to Products Liability Premium that your company incurs for the following: If your company estimates any of the data provided, please clearly indicate that it is an estimate.

- a. Losses, including all loss adjustment expenses (on an ultimate settlement basis) ratioed to premiums earned _____ %
- b. Commissions & acquisitions expenses, ratioed to premiums written _____ %
- c. Taxes, ratioed to premiums written _____ %
- d. General expenses, ratioed to premiums earned _____ %
- e. Combined ratio: Some of a through d before underwriting profit and contingencies _____ %
- f. Underwriting Profit _____ %

4. What is the average annual total limits products liability incurred claim costs for your company for each of the past five years where you have data available?

5. Please furnish the following information:

a. Which of the following does your company write:

Primary Insurance ☐

Umbrella Insurance ☐

Excess Insurance ☐

b. What limits of Product Liability is your company usually willing to afford for the following:

Primary Insurance _____

Umbrella Insurance _____

Excess Insurance _____

c. Has your company curtailed the limits you are willing to afford in the last 36 months? If the answer is "yes", please explain.

6. a. How does your company allocate premiums received from a multi-state product liability risks?

1. All premium assigned to risk's state of domicile.

2. All premium assigned to state in which application is made and policy is delivered. _____

3. Premium is split and allocated to each state in which risk has a physical plant. _____

4. Premium is allocated to each state on the basis of sales in each state. _____

5. Other (Please explain). _____

b. Is your company consistent in this practice? (Please explain any exceptions in detail.)

7. a. How does your company allocate losses paid on behalf of a multi-state product liability risk?

1. All losses assigned to risk's state of domicile.

2. All losses assigned to claimant's state of domicile.

3. Losses allocated to state in which product was manufactured or distributed. _____

4. Losses allocated to state in which suit is brought. _____

5. Other (Please explain) _____

- b. Is your company consistent in this practice? (Please explain any exception in detail)

SECTION III - GENERAL CLAIMS DATA

1. On a scale of 1 to 4 (1 being the most numerous), what are the sources of Product Liability claims? State source of data.
 - a. Consumers (market place) _____
 - b. Employers (work place) _____
 - c. Other Insurers (subrogation) _____
 - d. Other (please explain) _____
2. On a scale of 1 to 4 (1 being the most severe), how does the severity of a claim from each source compare: State source of data.
 - a. Consumers (market place) _____
 - b. Employers (work place) _____
 - c. Other Insurers (subrogation) _____
 - d. Other (please explain) _____

3. Please explain, in detail, all types of loss prevention/risk management (assistance) provided by your company to product liability risks.

SECTION IV - VOLUNTARY MARKET ASSISTANCE PROGRAMS

1. a. Has a market assistance program or local industry advisory committee been established in your state to assist in the placement of problem risks?
- b. If so, has your company assumed any risks referred to it by such a program? Describe generally the risks thus assumed by your company and the general underwriting difficulties that have been encountered. If your company has not assumed any risks thus referred, would it be willing to consider individual cases? Give the name and address of a senior officer or underwriter who could be contacted.

SECTION V - COMMENTS

1. If your company has any comments or observations it wishes to make on product liability, please type them on a separate sheet of paper and attach to this questionnaire.

EXHIBIT 5



STATE OF IDAHO
DEPARTMENT OF INSURANCE
700 W. STATE STREET
BOISE 83720

June 2, 1980

George Neideck
Commerce Department
Room 5027
Washington, DC 20230

RE: Products Liability Report

Dear George:

Per our conversation, find enclosed the regulations and reporting form used by this state for collecting data on Products Liability.

Our Products report is not completed. I thought it might be, but not yet. All we have are the companies listed with their reports. We have made no determination on this data as of now. I will send you a copy as soon as it is completed.

If there is anything else I can do, let me know.

Thank you.

Sincerely,

DEPARTMENT OF INSURANCE

A handwritten signature in cursive script, appearing to read "Ken Hurt".

Ken Hurt
Statistical Analyst

KH:gc

Encs.



STATE OF IDAHO
DEPARTMENT OF INSURANCE
700 W. STATE STREET
BOISE, IDAHO 83720

B U L L E T I N #80 - 2

TO: ALL COMPANIES ISSUING CASUALTY INSURANCE

FROM: MONROE C. GOLLAHER, DIRECTOR
DEPARTMENT OF INSURANCE

SUBJECT: REPORTING OF LIABILITY INSURANCE STATISTICS MANDATED
BY SECTION 41-336A, AS AMENDED BY SENATE BILL 1039,
PASSED DURING THE 1979 IDAHO LEGISLATIVE SESSION

The purpose of this bulletin is to promulgate the forms and instructions necessary for the submission of certain statistical data pursuant to Senate Bill 1039 (Attachment 1) passed by the 1979 Idaho Legislature effective July 1, 1979. This bill requires the annual reporting by insurers of various exposure, premium, loss and claim information for Medical Malpractice Liability, Attorney Malpractice Liability, Product Liability, and any other risk or risks, whether liability or otherwise, that the Director may designate.

The Director has determined that the statistical reporting forms and instructions enclosed herein (Attachment 2) will provide for the orderly gathering of the data required by Section 41-336A, Idaho Insurance Code. In developing these forms and instructions, the Director has attended numerous meetings and carefully considered the advice and counsel of members of the insurance industry, members of the NAIC Statistical Data Compilation (B4) Subcommittee, and the staff of other interested Departments of Insurance in neighboring states.

The Department cannot waive any of the requirements for the data to be provided, nor can it interpret the law to be any less stringent than reflected by the enclosed forms and instructions.

Section 41-336A required that the reports are to be received in this office by March 1 for the preceding calendar year ending December 31. Any report not received by May 1 of each year will be the subject of disciplinary action being taken against the delinquent insurer.

DEPARTMENT OF INSURANCE

A handwritten signature in cursive script that reads "Monroe C. Gollaher".

MONROE C. GOLLAHER
Director

Attach. 2

January 10, 1980

IN THE SENATE

SENATE BILL NO. 1039

BY JUDICIARY AND RULES COMMITTEE

AN ACT

RELATING TO THE MANDATORY REPORTING OF STATISTICS BY INSURERS REPEALING SECTIONS 41-336A AND 41-336B, IDAHO CODE; AMENDING CHAPTER 3, TITLE 41, IDAHO CODE, TO ADD A NEW SECTION 41-336A, IDAHO CODE, TO ESTABLISH NEW REQUIREMENTS FOR MEDICAL AND ATTORNEY MALPRACTICE REPORTS, REQUIREMENTS FOR PRODUCT LIABILITY REPORTS, AND OTHER REPORTS AS THE DIRECTOR OF THE DEPARTMENT OF INSURANCE MAY DIRECT.

Be It Enacted by the Legislature of the State of Idaho:

SECTION 1. That Sections 41-336A and 41-336B, Idaho Code, be, and the same are hereby repealed.

SECTION 2. That Chapter 3, Title 41, Idaho Code, be, and the same is hereby amended by the addition thereto of a NEW SECTION, to be known and designated as Section 41-336A, Idaho Code, and to read as follows:

41-336A. STATISTICAL REPORTS. (1) As a condition of doing business in the state of Idaho each insurer transacting insurance covering:

(a) Liability for malpractice of any person licensed under chapter 18, title 54, Idaho Code;

(b) Liability for malpractice of any person licensed under chapter 1, title 3, Idaho Code;

(c) Liability for the manufacture, design, production, processing or modification of any product; or

(d) Any other risk or risks, whether liability or otherwise, that the director of the department of insurance may specify;

shall report to the director such statistics as the director may designate by rule or regulation. The statistics shall be reported to the director annually, by the first day of March, for the preceeding year ending December 31.

(2) The reports required by subsection (1) above shall include, but shall not be limited to, the following for each insurer for each type of insurance for which a report is required:

(a) Number of exposures;

(b) Direct premiums written;

- 1 (c) Direct premiums earned;
- 2 (d) Direct losses paid
- 3 (i) amount,
- 4 (ii) number of claims;
- 5 (e) Direct losses incurred;
- 6 (f) Direct losses unpaid
- 7 (i) amount reported,
- 8 (ii) number of claims; and
- 9 (g) Net losses incurred but not reported.

(Company Name)

IDAHO DEPARTMENT OF INSURANCE

(Person Reporting)

Annual Report of Liability Experience for Calendar Year
As Required by Section 41-336A, Idaho Code (As Amended by 1979 Legislature)

(Title and Tele. No.)

IDAHO BUSINESS ONLY

(1) NUMBER OF EXPOSURES	(2) DIRECT PREMIUMS WRITTEN	(3) DIRECT PREMIUMS EARNED	(4) DIRECT LOSSES PAID		(6) DIRECT LOSSES INCURRED (d)	(7) DIRECT LOSSES UNPAID		(9) DIRECT LOSSES INCURRED BUT NOT REPORTED	(10) LOSS RATIO Col. 6 ÷ Col. 3
			AMOUNT	NO. OF CLAIMS		AMOUNT REPORTED	NO. OF CLAIMS		
MEDICAL MALPRACTICE LIABILITY INSURANCE (a):									
Physicians-including Surgeons & Osteopaths									
Hospitals									
Other Health Care Professionals - including dentists									
Other Health Care Facilities									
Totals									
PRODUCTS COMPLETED OPERATIONS Liability Insurance (b),(c):									
All Classes Combined									
ATTORNEY MALPRACTICE LIABILITY INSURANCE (c):									
All Classes Combined									

NOTES: See Sheet 2

- NOTES:
- (a) Data displayed should reconcile with Medical Malpractice Supplement A to Schedule T of the Annual Statement - see Medical Malpractice Supplement A instructions.
 - (b) Where applicable, data displayed should reconcile with Products Liability Insurance Supplement to Annual Statement - see Products Liability Supplement instructions.
 - (c) For Products Liability and Attorney Malpractice Liability Insurance, number of exposures is defined as either the company's count of policies in force or the company's number of exposures as defined in the statistical plan filed with the Idaho Insurance Department. Please identify below which basis has been used.
 - (d) Col. (6) equals the sum of Col. (4), Col. (7), and Col.(9) less the sum of Col. (7) and Col. (9) for previous year.
 - Policies in force ☐
 - Exposures as defined in statistical plan ☐

ADDITIONAL NOTES: 1. Information must be typed or printed legibly in ink.

- 2. Data is to be entered in whole dollars. Negative figures are to be identified by placing the amounts within parentheses.
- 3. If your company has no premiums or losses to be reported, form must still be completed showing word "NONE".



STATE OF IDAHO
DEPARTMENT OF INSURANCE
700 W. STATE STREET
BOISE, IDAHO 83720

BULLETIN #80 - 1

TO: ALL COMPANIES ISSUING PROPERTY AND CASUALTY INSURANCE

FROM: MONROE C. GOLLAHER, DIRECTOR
DEPARTMENT OF INSURANCE

SUBJECT: STATISTICAL REPORTING RULE

Section 41-1428, Idaho Insurance Code, provides that the Director shall promulgate reasonable rules and statistical plans in order that "the experience of all insurers may be made available at least annually in such form and detail as may be necessary to aid him in determining whether rates comply with the applicable standards of this chapter."

The purpose of this bulletin is to notify all insurance companies transacting property and casualty insurance business in this state of the enclosed statistical reporting rule being adopted by the Idaho Department of Insurance to satisfy the requirements of the aforementioned statute. This rule will enable the Director to receive and handle the necessary statistical reports in an orderly fashion. In developing this rule, the Director attended numerous meetings and carefully considered the advice and counsel of members of the insurance industry, members of the NAIC Statistical Data Compilation (B4) Subcommittee, and the staff of other interested Departments of Insurance in neighboring states.

DEPARTMENT OF INSURANCE

A handwritten signature in cursive script, reading "Monroe C. Gollaher".

MONROE C. GOLLAHER
Director

January 10, 1980

IDAHO DEPARTMENT OF INSURANCE

STATISTICAL REPORTING RULE

1. Statutory Authority: Pursuant to the authority granted by Section 41-1428, this rule is promulgated to implement the insurance laws of the State of Idaho concerning the promulgation of statistical plans and the appointment by the Director of statistical agents.
2. Effective Date: This rule shall become effective March 1, 1980.
3. Applicability: This rule shall apply to those kinds of insurance designated in Section 41-1401, Idaho Insurance Code.
4. Definitions:
 - a. Statistical Plan: a system for recording insurance premium and loss information; may provide for the recording of insurance expense experience.
 - b. Statistical Agent: an organization authorized by the Director to gather and compile insurance statistical experience.
 - c. Statistical Handbook: as approved by the National Association of Insurance Commissioners (NAIC) in December, 1978, an index of insurance statistical reports furnished by statistical agents to regulators regularly and upon request.
5. Duties of Companies:
 - a. All insurance companies licensed in Idaho shall report their insurance statistical experience to a statistical agent authorized by the Director or, by prior agreement only, directly to the Director. Such information shall be submitted in the form and detail outlined in the statistical plans filed with the Director.
 - b. Companies shall inform the Director of their choice of statistical agent and of any changes in statistical agent.
6. Duties of Statistical Agent:
 - a. All statistical agents employing the Statistical Handbook:

Every statistical agent shall report its insurance data compilations to the Director in the form and detail contained in the Statistical Handbook and as nearly as possible within the time frames contained therein. Statistical agents will promptly notify the Director of all changes in their statistical plans or in their reporting formats.
 - b. All statistical agents not employing the Statistical Handbook:

Every statistical agent shall submit to the Director the following information for each statistical plan:

STATISTICAL REPORTING RULE (CONTINUED)

- (1) A listing of all reports to be routinely produced and submitted to the Director from the data required by each plan.
- (2) A list of reports which are produced routinely or periodically from the data required by each plan that are not submitted to the Director.
- (3) Anticipated dates for the submission of experience reports described under (1) above.
- (4) Anticipated dates for the availability of any statistical report described under (2) above.

Every statistical agent which reports its insurance data compilations to the Director in the form and detail contained in these listings shall do so as nearly as possible within the time frames contained therein. Statistical agents will promptly notify the Director of any changes in their statistical plan or in their reporting format.

EXHIBIT 6



STATE OF KANSAS

KANSAS INSURANCE DEPARTMENT

State Office Building—First Floor
Topeka 66612 913-296-3071

FLETCHER BELL
Commissioner

BULLETIN 1979-32

TO: All Companies Authorized to Write Fire and/or Casualty Insurance
in Kansas

FROM: Fletcher Bell
Commissioner of Insurance

SUBJECT: K.S.A. 40-1130, 1979 Products Liability Information and Closed
Claims Report Forms

DATE: December 28, 1979

To facilitate your compliance with the requirements of K.S.A. 40-1130, we have attached copies of the appropriate forms which are to be used to submit your 1979 products liability information report and closed claim report. It is important to note that every item of information required by the forms must be submitted.

Instructions

1. Both the Kansas products liability information report and the closed claims report must be filed on or before March 1 of each year with this department, for the year immediately preceding. All closed claim forms must be submitted with the information on report form.
2. The name of the company must be plainly printed or stamped at the top of each report and upon any additional sheets needed to complete the reports. If reports are being submitted for a group of companies, a separate form must be submitted for each company within that group.
3. The insertion of the words "Not Available" in answer to any question will not be permitted unless sufficient explanation is given to demonstrate that such is, in fact, the case.
4. K.S.A. 40-1130 (new Section 2) defines "product liability insurance" as meaning:
 - a. Any policy of insurance insuring only the insured's legal obligation arising from the product liability exposure of the insured;

- b. Any other policy of liability insurance in which the premium collected includes a specific premium charged for product liability exposures of the insured; and
 - c. Any other insurance policy designated by the Commissioner of Insurance as providing products liability insurance.
5. Each company's attention is directed to this definition of products liability insurance when completing the required Kansas products liability information report form (attached). As clarification in the application of this definition of products liability insurance, the information to be reported under Item 5 of the Kansas product liability information report should include the following information:
- a. Under the monoline heading, include liability premiums written for any monoline policy and other policies of liability insurance which include a specific premium charge for product liability exposures.
 - b. Under the "Other than Monoline" heading, include the products liability premiums written for composite rated, loss rated, large A rated and commercial package policies except homeowners, farmowners or garage liability policies. No closed claims or statistical reporting is now required relative to homeowners, farmowners or garage liability policies. If precise figures are not obtainable, a reasonable estimate will be permitted if separately disclosed and identified.
6. The numbers shown for items 11 through 19 on the information report must correspond with the number of closed claims reports submitted to this department.
7. Reproduce the number of copies you will need of each report from the enclosed copies. If you are unable to reproduce the reports on both sides of a single page, enter the company name in the upper right hand corner of all pages and also enter the claim number on the closed claim reports.

If you have questions, or if this department can provide additional guidance, please contact us.

Yours very truly,



Fletcher Bell
Commissioner of Insurance

FB:jcm
Attachments

KANSAS PRODUCTS LIABILITY INFORMATION REPORT

AS REQUIRED BY K.S.A. 40-1130
(Instructions contained in Bulletin)
(These questions must be answered
by every insurer licensed in Kansas
even if the insurer has no product
liability insurance in force any-
where.)

Name of Company: _____
Company NAIC Code: _____
Name and Telephone Number of Company Repre-
sentative Completing this Form: _____

1. List the names of all other companies associated with your company, including holding or parent companies, wholly owned subsidiaries or divisions, or through interlocking directorships:
2. List of the lines of insurance your company writes in any jurisdiction (lines of business designated on Page 14 of Annual Statement may be utilized for identifying):
3. In what states is your company authorized to write products liability?
4. List the total premium dollar amount collected by your company for all lines of insurance, both Kansas and Countrywide, for 1979: (Schedule T of Annual Statement, Column 2, excluding foreign countries):

Kansas: _____ Countrywide (Including Kansas): _____

5. What is the dollar amount your company collected for Products Liability, both Kansas and Countrywide for the year 1979? (The amount must include Products Liability premium for Composite Rated, Loss Rated, Large A Rated and commercial package policies except homeowners, farmowners and garage keepers liability.) If precise figures are not obtainable, a reasonable estimate will be permitted if separately disclosed and identified.

<u>Monoline 1979</u>	<u>Other than Monoline 1979</u> (for which there is no identifiable premium)	<u>Total 1979</u>
----------------------	--	-------------------

Kansas

Countrywide
(Including Kansas)

6. State the dollar amount of Product Liability premiums collected in Kansas and Countrywide in 1979 for (a) primary coverage and (b) excess coverage.

<u>Primary (1979)</u>	<u>Excess (1979)</u>	<u>Total (1979)</u>
-----------------------	----------------------	---------------------

Kansas

Countrywide
(Including Kansas)

7. Does your company set reserves for Products Liability claims filed? If no, please explain.

_____ Yes _____ No

8. Does your company set reserves for Products Liability claims which have been incurred but not reported? If no, please explain.

_____ Yes _____ No

9. What total amount on reserves has your company established for Products Liability claims countrywide?

10. In reference to Questions 7, 8 and 9; how are these reserves treated for Federal Income Tax purposes?

(Questions 11 through 19 relate only to products liability claims reported on the Kansas Closed Claims Reports) The figures reported here must correspond with information submitted to this department on the individual closed claim reports.

11. Total number of claims closed in 1979: _____

12. Total number of claims closed without payment in 1979: _____

13. Total number of claims closed with payment in 1979: _____

14. Total amount of claim payment in 1979: _____

15. Total number of suits filed in 1979: _____

16. Total number of verdicts or judgments for defendants in 1979: _____

17. Total number of verdicts or judgments for plaintiffs in 1979: _____

18. Total amounts for plaintiffs (excluding plaintiff's attorney fees) 1979: _____

19. Aggregate of amounts reported under items 8(a) and 8(b) of Kansas Closed Claims Reports 1979 only) 8(a) _____ 8(b) _____

20. What is the value of all securities held in your investment portfolio as of December 31, 1979: (Total of items 1, 2, 3 and 5, Page 2, Annual Statement)

21. Please attach your annual report to Shareholders or Policyholders as a supplement to this report.

KANSAS PRODUCTS LIABILITY CLOSED CLAIM REPORT

(AS REQUIRED BY K.S.A. 40-1130)

INSTRUCTIONS

(See additional instructions
contained in Bulletin)

This form may be utilized for reporting information on closed claims which arose by reason of a defect or an alleged defect in an insured's product pursuant to any policy providing product liability coverage including monoline, composite rates, loss rated, Large A rated and commercial package policies except homeowners, farmowners and garage keepers liability. The information required by this form must be furnished on each claim against Kansas insureds regardless of the jurisdiction under which judgment was rendered, settlement made or the claim was otherwise disposed of. The information required by this form must also be completed on each claim adjudicated, settled or otherwise disposed of in Kansas regardless of the location of the insured or the state of policy issuance.

Complete a report for all closed claims, including those closed without payment. Complete all blanks. The insertion of the words "not available" in any of the blanks will not be permitted unless sufficient information is given to explain that no information is available. When an item calls for the dollar amount and no amount is involved, enter -0- in the space. See attached for industry product codes.

-
- 1a) Insurer's Name and NAIC Code _____
- 1b) Claim File Identification Number _____
- 2a) Insured's Name and Address (This information may be omitted if the claim file identification number (1b) is shown) _____
- 2b) Type of Insured (Manufacturer, seller, bailee) _____
- 2c) I.S.O. Statistical Classification Code (CSP Code) for insured _____
- 3a) Type of Product or Service (See attached for industry products codes) _____
- 3b) I.S.O. Classification Code used for Rating Purposes _____
- 3c) Did Product Meet Safety Requirements of ____ State ____ Federal ____ Other
- 4a) Date of Occurrence (Injury) _____
- 4b) Date Notice of Claim Made _____
- 4c) If Legal Action Filed, Date of Action _____
- 4d) Type of Disposition and Date of Final Action: Judgment Date _____
or Dismissed Date _____ or Settlement Date _____
- 4e) Date Claim Closed _____
- 5a) Reason for Settlement _____ or Dismissal _____
- _____

- 6a) Summary of Occurrence which Created Claim _____
- 6b) Injury occurred in: Home ___ Office ___ Plant ___ Other (please specify) _____
- 6c) Number of Plaintiffs (injured parties) _____
- 6d) Number of Defendants _____
- 7a) State of Territory under whose Jurisdiction the Claim was Disposed of _____
- 8a) Total Amount Reserved at Time of Disposition _____
- 8b) Amount of Initial Reserve _____ 8c) Year Established _____
- 8d) Subsequent Additions or Subtractions to Reserve (Report separately for each year the reserve was adjusted _____
- 9) Amount of Award Received by Plaintiff's Attorney(s) _____
- 10) Defense Costs Incurred by Your Company _____
- 11) Settlement Costs Incurred by Your Company (not including settlement paid) _____
- 12) Any Other Costs (Specify) _____
- 13a) Amount of Award to Plaintiff (only if Legal Action Taken) _____
- 13b) Amount of Settlement Paid to Claimant _____

Name of Company Representative Completing
Form _____
Telephone No. _____
Date Form Completed _____

Note: This form is not to be sent in separately but is to be attached to the statistical information form which is due by March 1, 1980 for all 1979 Business and Claims Closed in 1979.

INDUSTRY CLASSIFICATION CODE LIST

(For Use with Kansas Products Liability Closed Claim Report)

ALPHABETICAL DIVISION AND MAJOR GROUP DESCRIPTION

DIVISION A - CONTRACT CONSTRUCTION

- Major Group 15 - Building Construction - General Contractors
- Major Group 16 - Construction other than Building Construction - General Contractors
- Major Group 17 - Construction - Special Trade Contractors

DIVISION B - MANUFACTURING

- Major Group 19 - Ordinance and Accessories (Guns, Howitzers, Ammunition, etc.)
- Major Group 20 - Food and Kindred Products (Meat Products, Sugar, Malt Liquors, etc.)
- Major Group 21 - Tobacco Manufacturers
- Major Group 22 - Textile Mill Products
- Major Group 23 - Apparel and other Finished Products Made from Fabrics and Similar Materials
- Major Group 24 - Lumber and Wood Products, Except Furniture
- Major Group 25 - Furniture and Fixtures
- Major Group 26 - Paper and Allied Products
- Major Group 27 - Print, Publishing and Allied Industries
- Major Group 28 - Chemicals and Allied Products (Pharmaceuticals, Soaps, Explosives)
- Major Group 29 - Petroleum Refining and Related Industries
- Major Group 30 - Rubber and Miscellaneous Plastics Products
- Major Group 31 - Leather and Leather Products
- Major Group 32 - Stone, Clay, Glass and Concrete Products
- Major Group 33 - Primary Metal Industries (Blast Furnaces, Drawing into Wire, etc.)
- Major Group 34 - Fabricated Metal Products, Except Ordinance, Machinery and Transportation Equipment)
- Major Group 35 - Machinery, Except Electrical
- Major Group 36 - Electrical Machinery, Equipment and Supplies
- Major Group 37 - Transportation Equipment (Autos, Ships, Aircraft, etc.)
- Major Group 38 - Professional, Scientific, and Controlling Instruments; Photographic and Optical Goods; Watches and Clocks
- Major Group 39 - Miscellaneous Manufacturing Industries (Toys, Sporting Goods, etc.)

DIVISION C - TRANSPORTATION, COMMUNICATION, ELECTRIC, GAS AND SANITARY SERVICES

- Major Group 42 - Motor Freight Transportation and Warehousing
- Major Group 44 - Water Transportation
- Major Group 47 - Transportation Services
- Major Group 49 - Electric, Gas and Sanitary Services

DIVISION D - WHOLESALE AND RETAIL TRADE

- Major Group 50 - Wholesale Trade
- Major Group 52 - Retail Trade - Building Materials, Hardware and Farm Equipment
- Major Group 53 - Retail Trade - General Merchandise
- Major Group 54 - Retail Trade - Food Stores
- Major Group 55 - Automotive Dealers and Gasoline Service Stations
- Major Group 56 - Retail Trade - Apparel and Accessories Stores
- Major Group 57 - Retail Trade - Furniture, Home Furnishings and Equipment Stores
- Major Group 58 - Retail Trade - Eating and Drinking Places
- Major Group 59 - Retail Trade - Miscellaneous Retail Stores

(over)

DIVISION E - SERVICES

Major Group 70 - Hotels, Rooming Houses, Camps and other Lodging Places
Major Group 72 - Personal Services
Major Group 73 - Miscellaneous Business Services
Major Group 75 - Automobile Repair, Automobile Services and Garages
Major Group 76 - Miscellaneous Repair Services
Major Group 79 - Amusement and Recreation Services, Except Motion Pictures
Major Group 80 - Medical and other Health Services
Major Group 86 - Nonprofit Membership Organizations
Major Group 89 - Miscellaneous Services

DIVISION F - GOVERNMENTAL

Major Group 91 - Governmental-Federal, State or Local

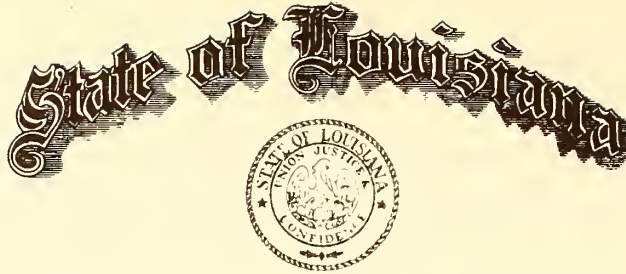
DIVISION G - AGRICULTURE, FORESTRY AND FISHERIES

Major Group 01 - Agricultural Production (Fruit Farms, Beef Cattle Farms, etc.)
Major Group 07 - Agricultural Services and Hunting and Trapping (Farm Machinery Operator
Vegetable Packing, etc.)

DIVISION H - MINING

Major Group 12 - Bituminous Coal and Lignite Mining
Major Group 13 - Crude Petroleum and Natural Gas
Major Group 14 - Mining and Quarrying of Nonmetallic Minerals, Except Fuels

EXHIBIT 7



Sherman A. Bernard
COMMISSIONER

Commissioner of Insurance
Baton Rouge 70804

504/342-5322
P. O. Box 44214
Capitol Station

June 30, 1980

George Neidich
Products Liability Task Force
Commerce Department
Washington, D.C. 20230

RE: Products Liability Reporting Form

Dear Mr. Neidich:

Enclosed are the reporting forms as requested.

Sincerely yours,

SHERMAN A. BERNARD
COMMISSIONER OF INSURANCE

BY: Gloria Husser
Gloria Husser, Consumer Service Representative

GH/21
Enclosure

PRODUCT LIABILITY REPORTING FORM

Calendar Year _____

(Company) _____

- | | |
|---|-------------|
| 1. Number of Claims | |
| A. Manufacturers | _____ |
| B. Wholesalers or Distributors | _____ |
| C. Retailers | _____ |
| D. All Others | _____ |
| | Total _____ |
| 2. New Claims | _____ |
| 3. Claims Closed | _____ |
| 4. Outstanding Claims | _____ |
| 5. Total Losses Incurred | |
| A. Manufacturers | \$ _____ |
| B. Wholesalers or Distributors | \$ _____ |
| C. Retailers | \$ _____ |
| D. All Others | \$ _____ |
| * 6. Total Reserves available to pay product | |
| ** liability claims reported last year | \$ _____ |
| 7. Total earned premium from insured persons, resident or transacting business in this state. | |
| A. Manufacturers | \$ _____ |
| B. Wholesalers or Distributors | \$ _____ |
| C. Retailers | \$ _____ |
| D. All Others | \$ _____ |
| 8. Total number of insured persons, resident or transacting business in this state for which product liability insurance has been provided. | |
| A. Manufacturers | _____ |
| B. Wholesalers or Distributors | _____ |
| C. Retailers | _____ |
| D. All Others | _____ |
| 9. The total number of insured persons, resident or located in this state whose product liability has been cancelled. | |
| A. Manufacturers | _____ |
| B. Wholesalers or Distributors | _____ |
| C. Retailers | _____ |
| D. All Others | _____ |
| 10. The total number of insured persons, resident or located in this state whose product liability insurance has been non renewed. | |
| A. Manufacturers | _____ |
| B. Wholesalers or Distributors | _____ |
| C. Retailers | _____ |
| D. All Others | _____ |
| 11. Your total cost to provide this information. | \$ _____ |

*Report, if available, 1978 calendar year end reserves for product liability.

**This is confidential information, except that members of the legislature may have access to summaries of the combined totals of the reserves.

PRODUCT LIABILITY REPORTING FORM

Calendar Year _____

(Company) _____

1. Number of Claims
 - A. Manufacturers _____
 - B. Wholesalers or Distributors _____
 - C. Retailers _____
 - D. All Others _____

Total _____
2. New Claims _____
3. Claims Closed _____
4. Outstanding Claims _____
5. Total Losses Incurred
 - A. Manufacturers \$ _____
 - B. Wholesalers or Distributors \$ _____
 - C. Retailers \$ _____
 - D. All Others \$ _____
- * 6. Total Reserves available to pay product liability claims reported last year \$ _____
7. Total earned premium from insured persons, resident or transacting business in this state.
 - A. Manufacturers \$ _____
 - B. Wholesalers or Distributors \$ _____
 - C. Retailers \$ _____
 - D. All Others \$ _____
8. Total number of insured persons, resident or transacting business in this state for which product liability insurance has been provided.
 - A. Manufacturers _____
 - B. Wholesalers or Distributors _____
 - C. Retailers _____
 - D. All Others _____
9. The total number of insured persons, resident or located in this state whose product liability has been cancelled.
 - A. Manufacturers _____
 - B. Wholesalers or Distributors _____
 - C. Retailers _____
 - D. All Others _____
10. The total number of insured persons, resident or located in this state whose product liability insurance has been non renewed.
 - A. Manufacturers _____
 - B. Wholesalers or Distributors _____
 - C. Retailers _____
 - D. All Others _____
11. Your total cost to provide this information. \$ _____

*Report, if available, 1978 calendar year end reserves for product liability.

**This is confidential information, except that members of the legislature may have access to summaries of the combined totals of the reserves.

EXHIBIT 8

Theodore T. Briggs, CPCU
Superintendent



(207) 289-3141
Offices located at:
Central Building
Hallowell Annex
Hallowell, Maine

DEPARTMENT OF BUSINESS REGULATION
BUREAU OF INSURANCE
STATE HOUSE STATION 34
AUGUSTA, MAINE 04333

June 4, 1980

Mr. George Neidich
Commerce Department
Room 5027
Washington, D.C. 20230

Re: Maine Products Liability Reporting

Dear Mr. Neidich:

Enclosed per the request of your staff is a copy of Bulletin 124 dated April 5, 1978, requiring property and casualty insurers to file products liability experience as well as a copy of the form on which the report is to be made.

We regret that a compilation of data is not available at this time, but we will be happy to forward a copy upon completion.

Yours truly,

Roger L. Andrews
Roger L. Andrews, Supervisor
Property and Casualty Division

RLA/dt

Enclosure

STATE OF MAINE

Company Reporting: _____

Convention Blank Addendum Filing
 Page 14 Supplement - Maine
 Year Ended _____

Part 1 - Products Liability

Territory	Major Peril	Net Direct Premiums Written	Net Premiums Earned	Losses pd.		Losses Incurred	
				No.	Amount	No.	Amount
Maine							
Mono-Line							
Manual Rated	B.I. P.D.						
"A" Rated	B.I. P.D.						
+ Other Than Mono-Line	B.I. P.D.						
*Country Wide							
Mono-Line							
Manual Rated	B.I. P.D.						
"A" Rated	B.I. P.D.						
+ Other Than Mono-Line	B.I. P.D.						
Sub-Total (Part 1)	B.I.						
Sub-Total (Part 1)	P.D.						
Sub-Total (Part 1)	Products						

Part 2 - Products Liability - Completed Operations

Territory	Major Peril	Net Direct Premiums Written	Net Premiums Earned	Losses pd.		Losses Incurred	
				No.	Amount	No.	Amount
Maine							
Mono-Line							
Manual Rated	B.I. P.D.						
"A" Rated	B.I. P.D.						
+ Other Than Mono-Line	B.I. P.D.						
*Country Wide							
Mono-Line							
Manual Rated	B.I. P.D.						
"A" Rated	B.I. P.D.						
+ Other Than Mono-Line	B.I. P.D.						
Sub-Total (Part 2)	B.I.						
Sub-Total (Part 2)	P.D.						
Sub-Total (Part 2)	Products-Completed Operations						

SUMMARYMaine

Sub-Total (Parts 1&2) B.I.
 Sub-Total (Parts 1&2) P.D.

Country-Wide
(Excluding Maine)

Sub-Total (Parts 1&2) B.I.
 Sub-Total (Parts 1&2) P.D.

GRAND TOTAL

Total (Parts 1&2) B.I.
 Total (Parts 1&2) P.D.

*Exclude Maine

+Include Package Policies & All Composite Plan Issues (including loss rated issues)

EXHIBIT 9

STATE OF MICHIGAN



WILLIAM G. MILLIKEN, Governor

DEPARTMENT OF COMMERCE

WILLIAM F. McLAUGHLIN, Director

INSURANCE BUREAU

1048 PIERPONT

P.O. BOX 30220

LANSING, MICHIGAN 48909

June 6, 1980

Mr. George Neidich
Room 5027
Commerce Department
Washington, D. C. 20230

Dear Mr. Neidich:

Enclosed please find a copy of Insurance Bureau Bulletin 79-5 and 79-3, which you requested. If you have any further questions, please feel free to contact me.

Sincerely,

A handwritten signature in cursive script that reads "Barbara Coulter Edwards".

Barbara Coulter Edwards
Policy Analyst

BCE:kab
Enclosure

STATE OF MICHIGAN
DEPARTMENT OF COMMERCE
INSURANCE BUREAU

BULLETIN 79- 3

In the matter of Public Act 506
of 1978; products and municipal liability
insurance financial reporting requirements /

Issued and entered
this 16th day of February, 1979
by Jean K. Carlson
Acting Commissioner of Insurance

AN INFORMATIONAL STATEMENT ISSUED PURSUANT TO ACT 306
OF THE PUBLIC ACTS OF 1969, AS AMENDED

Public Act 506 of 1978, enacted on December 13, 1978, adds Section 2477a and amends Sections 438 and 810 of the Michigan Compiled Laws to require insurers to report certain financial and claims information on products liability and municipal liability lines of insurance. This bulletin explains the provisions of the act with respect to the financial reporting requirements.

FINANCIAL REPORTING REQUIREMENTS

Public Act 506 requires that each insurer report by March 1 of each year the following financial information with respect to products liability and municipal liability insurance written during the 12-month period ending December 31 of the previous year:

- a) Direct premiums earned
- b) Direct premiums written
- c) Direct losses incurred
- d) Dividends paid or credited on direct premiums.

At present, the Michigan Insurance Bureau requires this information to be reported for total business and for Michigan business for products liability insurance as a supplement to the Exhibit of Premiums and Losses on page 14 of the annual financial statement (Form INS 118). To collect the additional information required for municipal liability, this supplemental exhibit will be expanded beginning with the 1979 reporting year to include a line for municipal liability insurance data; this requirement for municipal liability data will apply to Michigan business only. A sample of this amended supplement is attached to this bulletin as Exhibit I.

The act also provides that each insurer shall report by March 1 of each year the following loss and expense data for Michigan products liability and municipal liability insurance written during the 12-month period ending December 31 of the previous year.

- a) Ratio of incurred losses to direct earned premiums,
- b) Ratio of loss adjustment expenses to direct earned premiums,
- c) Ratio of commissions to direct written premiums,
- d) Ratio of taxes to direct written premiums, and
- e) Ratio of all other expenses to direct written premiums.

These ratios shall be required to be reported for Michigan business only, and shall be reported by means of a supplemental exhibit to the annual property and casualty financial statement (attached as Exhibit II). All requirements of Public Act 506 for reporting of financial information will be satisfied by completion of the supplemental exhibits of premium, loss, and expense information for non-auto liability insurance which will be provided as supplements to the annual financial statement beginning with the 1979 reporting year.

The requirements of Public Act 506 shall pertain only to products liability and municipal liability insureds whose premiums are reported on line 17 of the Exhibit of Premiums and Losses of the annual fire and casualty financial statement. For the purposes of this act, municipal liability insurance shall be liability insurance purchased by any of the following:

- a. a governmental agency,
- b. a governmental services unit funded and operated by any governmental entity, or
- c. a quasi-governmental entity with autonomous taxing authority.

Examples of entities covered by this definition include cities, counties, townships, police and fire departments, municipal hospitals, school and park districts, and publicly-owned utilities. Liability insurance purchased by private or non-profit organizations, whether partially or wholly funded by public moneys, shall not be included in the definition of municipal liability insurance.

IMPLEMENTATION OF REPORTING REQUIREMENTS

The act requires that all data which is reported be based on actual information from the insurer's records; for implementation purposes, however, the act does permit estimation of data during the first year of operation. The requirements of this act shall initially apply to 1979 data, to be reported as part of the annual financial statement on or before March 1, 1980. First year data for municipal liability insurance may be estimated by any reasonable methods. Each insurer reporting estimated data should include an explanation of the estimation and sampling techniques used.

The statute requires actual data to be reported for 1980 and subsequent reporting years. For purposes of this reporting requirement, the Insurance Bureau will interpret actual data to include reasonably allocated premiums, losses, and expenses actually incurred by the insurer or projected to be incurred but not reported (IBNR) at year's end. Each insurer shall provide detailed notes explaining allocation methods and procedures.

This bulletin is effective immediately. Operation of this bulletin does not withdraw or supercede operation of any Insurance Bureau bulletins currently in effect.


Jean K. Carlson
Acting Commissioner of Insurance

M I C H I G A N I N S U R A N C E B U R E A U

EXHIBIT I

TO BE PREPARED BY ALL LICENSED COMPANIES

COMPANY NAME _____

STATE OF INCORPORATION _____

DIRECT PREMIUMS AND LOSSES FOR YEAR _____

SAMPLE BREAKDOWN OF ANNUAL STATEMENT EXHIBIT OF PREMIUMS AND LOSSES, PAGE 14 (LINE 17)

TOTAL BUSINESS				MICHIGAN BUSINESS ONLY			
	DIRECT PREMIUMS EARNED	DIRECT LOSSES INCURRED	DIVIDENDS PAID OR CREDITED ON DIRECT PREMIUMS	DIRECT PREMIUMS WRITTEN	DIRECT PREMIUMS EARNED	DIRECT LOSSES INCURRED	DIVIDENDS PAID OR CREDITED ON DIRECT PREMIUM
Product Liability							
Municipal liability	DOES NOT APPLY	DOES NOT APPLY	DOES NOT APPLY				
liquor Liability							
remainder Non- auto Liability							
Total (line 17)							

Include the product liability portion of any policy for which the premiums for product liability are separately stated.
TOTAL BUSINESS - Include all indivisible premium policies for which at least one half of the premium is for product liability.
MICHIGAN BUSINESS ONLY - Include that percentage of all composite premium policies which is for product liability.

Include the municipal liability portion of any policy for which the premiums for municipal liability are separately stated.
Include all indivisible premium policies for which at least one half of the premium is for municipal liability.

Do not include O.L. & T. premiums, losses and dividends on this line.

Include all remaining liability other than auto.

SAMPLE EXHIBIT OF LOSS AND EXPENSE RATIOS
FOR PRODUCT AND MUNICIPAL LIABILITY, MICHIGAN BUSINESS ONLY

A. PRODUCT LIABILITY

(1) Ratio of Incurred Losses to Direct Earned Premiums	(2) Ratio of Loss Adjustment Expense to Direct Earned Premiums	(3) Ratio of Commissions to Direct Written Premiums	(4) Ratio of Taxes to Direct Written Premiums	(5) Ratio of All Other Expenses to Direct Written Premiums	(6) Total Combined Ratio (Sum of Columns 1 - 5
1979					
1980					
1981					

B. MUNICIPAL LIABILITY

(1) Ratio of Incurred Losses to Direct Earned Premiums	(2) Ratio of Loss Adjustment Expense to Direct Earned Premiums	(3) Ratio of Commissions to Direct Written Premiums	(4) Ratio of Taxes to Direct Written Premiums	(5) Ratio of All Other Expenses to Direct Written Premiums	(6) Total Combined Ratio (Sum of Columns 1 - 5
1979					
1980					
1981					

STATE OF MICHIGAN
DEPARTMENT OF COMMERCE
INSURANCE BUREAU

BULLETIN 79-5

In the matter of Public Act 506
of 1978; reporting requirements for
products and municipal liability
insurance claims information /

Issued and entered
this 17th day of April 1979
by Jean K. Carlson
Acting Commissioner of Insurance

AN INFORMATIONAL STATEMENT AND INTERPRETIVE GUIDELINES
AND FORMS WITH INSTRUCTIONS ISSUED PURSUANT TO ACT 306
OF THE PUBLIC ACTS OF 1969, AS AMENDED

Public Act 506 of 1978, enacted on December 13, 1978, adds Section 2477a and amends Sections 438 and 810 of the Michigan Compiled Laws to require insurers to report certain financial and claims data on products liability and municipal liability lines of insurance. This bulletin explains the provisions of the act with respect to claims information and includes forms with instructions for implementing the claim reporting requirements. A separate informational bulletin (Bulletin 79-3) was previously issued to outline provisions of the law with regard to the filing of financial data.

APPLICABILITY OF REPORTING REQUIREMENTS

Public Act 506 requires that a complaint filed in any court against a Michigan insured must be reported to the Commissioner of Insurance (Commissioner) if the complaint seeks damages for personal injury claimed to have been caused by either of the following:

- a) With respect to a products liability insured, an alleged defect in the plan, design, manufacture, inspection, testing, labeling or packaging of a product or an alleged breach of duty with regard to warnings or instructions concerning a product.
- b) With respect to a municipal liability insured, an act or omission of a municipality or an employee of the municipality while engaged in the ordinary course of employment.

For purposes of this reporting requirement, a Michigan insured shall be defined to be any insured whose premiums for products or municipal liability insurance are attributable to Michigan business in allocating premiums for line 17 of the Exhibit of Premiums and Losses in the annual fire and casualty financial statement. The information required by the act must be provided for each personal injury claim filed in court against a Michigan insured regardless of the jurisdiction under which the claim is filed or under which judgment is rendered, settlement is made, or the claim is otherwise disposed.

Claims need not be reported for cases involving alleged liability by an individual acting as a private citizen in the operation or use of any product. Claims involving alleged medical malpractice, whether by an individual or a municipality, should not be reported under the provisions of Public Act 506, but should continue to be reported pursuant to Michigan Insurance Bureau Bulletin 77-9 (MCLA 500.2477). Also, claims against the residual liability coverages of a no-fault auto insurance policy for a municipality should not be reported as municipal liability claims under the provisions of Public Act 506.

For purposes of this act, a municipality shall be any of the following:

- a. a governmental entity,
- b. a governmental services unit funded and operated by any governmental entity, or
- c. a quasi-governmental entity with autonomous taxing authority.

Examples of entities covered by this definition include cities, counties, townships, police and fire departments, municipal hospitals, school and park districts, and publicly-owned utilities. Private or non-profit organizations, whether partially or wholly funded by public moneys, shall not be included in the definition of a municipality.

REPORTING FORMS AND INSTRUCTIONS

Attached to this bulletin as Exhibit I and Exhibit II are forms 790501 and 790502, with instructions for the use of each form. Form 790501 is an Initial Report of Court Action and is intended to collect data about the circumstances of a claim. This report must be filed within 30 days

after an answer to a claim is filed on behalf of an insured. Form 790501 need not be filed on any claim which was mistakenly filed in court, or which mistakenly named the insured as a defendant, if such information becomes known within the 30-day reporting period.

A Closed Claim Report, Form 790502, must eventually be filed on every claim for which an Initial Report of Court Action was submitted. In addition, a Closed Claim Report must be completed on any personal injury court claim which was filed against a Michigan products liability or municipal liability insured on or after January 1, 1976 and which is closed after the effective date of this bulletin, regardless of whether an Initial Report of Court Action was filed on the case. Unless an Initial Report of Court Action has been filed, a Closed Claim Report should not be submitted on any claim which was mistakenly filed in court or which mistakenly named the insured as a defendant.

A Closed Claim Report must be filed with the Commissioner within 30 days after a claim has been closed by the insurer, provided that this date is not more than 60 days after the date the claim was settled with respect to this defendant. If necessary, an insurer shall report the best reasonable estimate of any information not yet available at the time the report is filed.

Insurers shall make all reasonable efforts to determine and report the information requested on these reporting forms. Frequent and consistent failure to properly complete and file these forms may result in a compliance action against the insurer by the Commissioner.

CONFIDENTIALITY OF REPORT INFORMATION

The information reported on the forms described above will become part of the Insurance Bureau's actuarial data base. Section 2477a(4) of Public Act 506 provides that the information required by the act shall be maintained as confidential records by the Commissioner, and further specifies that the Commissioner shall release the data and information only for bonafide research, educational and legislative purposes. This section therefore exempts these claims records from the full disclosure provisions of the Freedom of Information Act (FIA), MCLA 15.2313.

Requests for information reported under Public Act 506 will be considered by the Commissioner on a case-by-case basis. A person requesting any confidential information shall be required to demonstrate that the information is necessary for a bonafide research, educational or legislative purpose. Unless proven otherwise, it shall be presumed that requests for name or address of an insured, name of a company, other insurance applicable to a claim, policy number, policy limits, or related information from individual report forms do not serve a bonafide research, educational or legislative purpose. Information on company name, policy limits, and other insurance applicable to a claim will be available from the Commissioner as aggregate or summary listings.

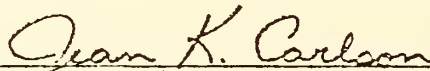
EFFECTIVE DATE

This bulletin shall become effective on June 1, 1979. All personal injury court claims against Michigan products liability and municipal liability insureds which are filed in court or which are settled on or after June 1, 1979 must be reported to the Commissioner as provided by Section 2477a of Public Act 506 and by this bulletin. Mail the completed forms to:

Michigan Insurance Bureau
P. O. Box 30220
Lansing, MI 48909

Attn: Liability Reporting Forms Coordinator

Operation of this bulletin does not supercede operation of any other Insurance Bureau bulletins currently in effect. In particular, this bulletin does not exempt insurers from the requirement to report medical malpractice information pursuant to Bulletin 77-9.



Jean K. Carlson
Acting Commissioner of Insurance

MICHIGAN INSURANCE BUREAU

INITIAL REPORT OF COURT ACTION (Form 790501)

PRODUCTS & MUNICIPAL LIABILITY

General Instructions

- A. This form shall be used for reporting information on any complaint filed against a Michigan insured in any court, if the complaint seeks damages for personal injury claimed to have been caused by:
 - a. an alleged defect in the plan, design, manufacture, inspection, testing, labeling, or packaging of a product or an alleged breach of duty with regard to warnings or instructions concerning a product, or
 - b. an act or omission of a municipality or an employee of the municipality while engaged in the ordinary course of employment.
- B. The information required by this form must be furnished on each claim filed in court against Michigan insureds regardless of the jurisdiction under whom the claim is filed.
- C. The initial report is due within 30 days after the filing of an answer in court on behalf of the insured.
- D. It is not necessary to file an Initial Report of Court Action on a complaint which was mistakenly filed in court, or which mistakenly named the insurer as a defendant, if such information becomes known before the end of the 30-day reporting period.
- E. If the answer to a question is not available from the insurer's claim file and has not been determined after reasonable effort during the course of the insurer's claim investigation, enter "0" in the rightmost box in the field. If a question does not apply to this claim, enter "1" in the rightmost box in the field.
- F. For the purposes of this act, a municipality shall be any of the following:
 - a. a governmental entity,
 - b. a governmental services unit funded and operated by any governmental entity, or
 - c. a quasi-governmental entity with autonomous taxing authority.

Examples of entities covered by this definition include cities, counties, townships, police and fire departments, municipal hospitals, school and park districts, and publicly-owned utilities. Private or non-profit organizations, whether partially or wholly funded by public moneys, shall not be included in the definition of a municipality.

Reporting Instructions

1. NAIC Company Code - enter the NAIC five digit company code for the insurance company filing this report form.

2. Claim File Number:

- a. The leftmost box in the field contains a "1" to indicate that this is an Initial Report of Court Action.

- - -

- b. In the next two boxes, enter the last two digits of the year in which this report is filed.

Example: report is filed in 1979.

- - -

- c. In the next 15 boxes enter the insurer's claim file identification number for this claim. Use leading "0's" if your company's claim file number has fewer than 15 numbers and letters. Do not enter any dashes or other punctuation.

Example: the insurer's claim identification number for this claim is AG-5032961.

- - -

- d. Some companies assign a common claim number to cases involving multiple defendants. In the rightmost box in the field, enter a "1" if this is the first or only defendant reported under this claim identification number. Enter a "2" if this is the second defendant reported under this claim number, a "3" if this is the third defendant, etc.

Example: this is the second defendant reported under the claim identification number AG-5032961.

- - -

3. Insurer's Name - enter the full name of the insurance company filing this reporting form.
4. Insured's Name - enter the full name of the insured against whom this claim was made.
5. Insurance Type - enter the correct code:

Primary coverage - 2

Excess coverage - 3

6. Policy Number - in the space provided, enter the policy number under which coverage relevant to this claim is provided.

7. Policy Limits - enter the policy limits, per occurrence and aggregate, as thousands:

Example: 25,000/75,000 limits are coded as:

occurrence

		2	5
--	--	---	---

aggregate

		7	5
--	--	---	---

If, for example, the policy has only an aggregate limit, enter a zero in the "per occurrence" field and complete the "aggregate" field as shown above.

8. Other Insurance Applicable? - this item refers to any other insurer providing products liability or municipal liability coverage with respect to this defendant in this case, including excess coverage. It refers only to that insurance which is provided directly to the insured. Do not include any reinsurance or other indirect coverage. Enter the correct code:

- 0 - Not known
- 1 - No
- 2 - Yes

8a-c. Company Name, Policy Number, Policy Limits - if the answer to (#8) is "yes", enter the name of any other insurance companies in (8a.), the corresponding policy number for each insurer in (8b.), and the corresponding policy limits in (8c.). If the answer to (#8) is "yes" but (8b.) or (8c.) is not known, enter "0" in the far righthand box in the appropriate field. Attach additional sheets if more than one other insurance policy is known to be applicable to this insured in this case.

9. Names of all Other Defendants Involved in Claim - list the full names of all defendants other than the insured who are named in the complaint. If there are no other defendants, or the information is not known, enter the appropriate code:

- 0 - Not known
- 1 - No other defendants or not applicable

10. Municipal Liability Insured's Address - enter city, state and zip code address for insured against whom the claim was made. Complete for a municipal liability claim only.

11. Name of Person Responsible for Report - enter the typewritten or printed name, address, and telephone number of the person to be contacted if questions arise concerning this report.

12. Claim File Number - enter the same number used for item #2.

Instructions for Initial Claim Report

Page 4

13. Date of Occurrence - enter the date on which the alleged injury occurred. If the occurrence was alleged to have taken place over a period of time or to have involved a series of incidents, the "date of occurrence" is the date of the end of the period of time in question or the date on which the last alleged incident occurred.
14. Date Complaint Filed in Court - enter the correct date, using the first two boxes for the month and the last two boxes for the year. For example, March 18, 1979 would be coded as

0	3	7	9
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15. Type of Court - enter the correct code:

- 2 - Small claims (Michigan)
- 3 - District (Michigan)
- 4 - Circuit (Michigan)
- 5 - Out of State

16. Location of Court - enter correct code:

If "Michigan", code:

Alcona	02	Hillsdale	31	Montcalm	60
Alger	03	Houghton	32	Montmorency	61
Allegan	04	Huron	33	Muskegon	62
Alpena	05	Ingham	34	Newaygo	63
Antrim	06	Ionia	35	Oakland	64
Arenac	07	Iosco	36	Oceana	65
Baraga	08	Iron	37	Ogemaw	66
Barry	09	Isabella	38	Ontonagon	67
Bay	10	Jackson	39	Osceola	68
Benzie	11	Kalamazoo	40	Oscoda	69
Berrien	12	Kalkaska	41	Otsego	70
Branch	13	Kent	42	Ottawa	71
Calhoun	14	Keweenaw	43	Presque Isle	72
Cass	15	Lake	44	Roscommon	73
Charlevoix	16	Lapeer	45	Saginaw	74
Cheboygan	17	Leelanau	46	St. Clair	75
Chippewa	18	Leawee	47	St. Joseph	76
Clare	19	Livingston	48	Sanilac	77
Clinton	20	Luce	49	Schoolcraft	78
Crawford	21	Mackinac	50	Shiawassee	79
Delta	22	Macomb	51	Tuscola	80
Dickinson	23	Manistee	52	Van Buren	81
Eaton	24	Marquette	53	Washtanaw	82
Emmet	25	Mason	54	Wayne	83
Genesee	26	Mecosta	55	Detroit	84
Gladwin	27	Menominee	56	Wexford	85
Gogebic	28	Midland	57		
Gd. Traverse	29	Missaukee	58		
Gratiot	30	Monroe	59		

If "out-of-state", code:

Alabama	AL	Kansas	KS	Ohio	OH
Alaska	AK	Kentucky	KY	Oklahoma	OK
Arizona	AZ	Louisiana	LA	Oregon	OR
Arkansas	AR	Maine	ME	Pennsylvania	PA
American Samoa	AS	Maryland	MD	Puerto Rico	PR
California	CA	Massachusetts	MA	Rhode Island	RI
Canal Zone	CZ	Minnesota	MN	South Carolina	SC
Colorado	CO	Mississippi	MS	South Dakota	SD
Connecticut	CT	Missouri	MO	Tennessee	TN
Delaware	DE	Montana	MT	Texas	TX
Dist.of Col.	DC	Nebraska	NE	Utah	UT
Florida	FL	Nevada	NV	Vermont	VT
Georgia	GA	New Hampshire	NH	Virginia	VA
Guam	GU	New Jersey	NJ	Virgin Islands	VI
Hawaii	HI	New Mexico	NM	Washington	WA
Idaho	ID	New York	NY	West Virginia	WV
Illinois	IL	North Carolina	NC	Wisconsin	WI
Indiana	IN	North Dakota	ND	Wyoming	WY
Iowa	IA				
Foreign jurisdiction	XX				

17. Court ID Number Assigned to the Case - enter the docket number assigned to the case by the court in which the complaint was filed. Place numbers in the rightmost boxes.

Example: case number NP 35689 would be coded as

			N	P	3	5	6	8	9
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18. Amount of Damages Asked - enter the amount of damages alleged (typically found in an ad damnum clause) in the suit filed in court. Round off to the nearest dollar and place numbers in the rightmost boxes. If the complaint does not ask for a specific amount but requests damages, for example, "in excess of \$10,000," enter \$10,000 in the field. If no dollar amount is used at all, enter "1" in the far righthand box in the field.

Example: \$14,395.93 is coded as

		1	4	3	9	6
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19. Nature of Activity Giving Rise to the Complaint - describe the source or cause of the injury.

MUNICIPAL LIABILITY CLAIM - complete #20-#22 only for municipal liability claims.

20. Type of Political Subdivision - enter the appropriate code:

- 2 City, town or village or city, town or village unit
3 County, or county unit
4 Township, or township unit
5 Other autonomous taxing district (schools, parks, fire etc.)
6 Other

A city (or town or village), county or township unit is a governmental department or organization that is run by, and does not have taxing authority separate from, the city (or town or village), county or township.

21. Official Job Title of Employee Involved - if this question is applicable, give the official job title of the employee involved. If not applicable, enter "1" in the field. If applicable but not known, enter "0" in the field.
22. Describe Employee Duties - again, if not applicable, enter "1" in the field. If applicable but not known, enter "0" in the field.

PRODUCT LIABILITY CLAIM - complete #23 and #24 only for products liability claims.

23. Type of Product Involved - enter a verbal description of the product which caused the claim to arise.
24. Product Classification Code - either enter the correct 4-digit Standard Industrial Classification (SIC) Code in (24a.) OR enter the correct 5-digit Insurance Services Office (ISO) Statistical Code (CSP Code) in (24b.) to describe the product named in #23.
25. Attach to this report a copy of the answer filed in court in response to the claim.
- 25a. Date Answer Filed - enter the correct date, using the first two boxes for the month, the next two boxes for the day of the month, and the last two boxes for the year. For example, July 10, 1979 would be coded as

0	7	1	0	7	9
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3. INSURER'S NAME _____

4. PERSON RESPONSIBLE FOR REPORT _____ TELEPHONE NUMBER _____

5. CLAIM DISPOSITION ☐

6. APPEALED ☐ 7. RESULT OF APPEAL ☐

8. DATE THIS CLAIM CLOSED

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 *9. DATE COMPLAINT

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*10. DATE OF OCCURRENCE

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*11. DESCRIBE INCIDENT WHICH CAUSED CLAIM (NATURE OF INJURY)

*12. TYPE OF POLITICAL SUBDIVISION		*13. POPULATION							
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*14. TYPE OF PRODUCT *15. PRODUCT CLASSIFICATION CODE

16. WAS PRODUCT MODIFIED? ☐ *15a. SIC ☐☐☐☐

17. IF YES, BY WHOM? ☐ *15b. ISO(CSP) ☐ ☐ ☐ ☐

18. DID PRODUCT MEET SAFETY REQUIREMENTS AT TIME OF ORIGINAL SALE?

19. INDEMNITY PAYMENTS ON BEHALF OF THIS DEFENDANT

[illegible]

21. TOTAL PAYMENTS FOR THIS DEFENDANT

22. OTHER PAYMENTS FOR THIS DEFENDANT

Form 790502

MICHIGAN INSURANCE BUREAU
CLOSED CLAIM REPORT (Form 790502)
PRODUCTS & MUNICIPAL LIABILITY

General Instructions

- A. This form is to be used for reporting information on closed claims which were initially filed in any court against a Michigan insured seeking damages for personal injury claimed to have been caused by:
- a. an alleged defect in the plan, design, manufacture, inspection, testing, labeling or packaging of a product or an alleged breach of duty with regard to warnings or instructions concerning a product, or
 - b. an act or omission of a municipality or an employee of the municipality while engaged in the ordinary course of employment.
- B. The information required by this form must be furnished on each closed claim that has been filed in court against Michigan insureds, with the exceptions provided in C., regardless of the jurisdiction under which judgement was rendered, settlement made, or the claim was otherwise disposed. Include claims closed without payment.
- C. A Closed Claim Report must eventually be filed on every claim reported on an Initial Report of Court Action. Do not file a Closed Claim Report on claims which were mistakenly filed in court or which mistakenly included the insurer, unless an Initial Report of Court Action has been filed. Also, do not file a Closed Claim Report on claims which were originally filed in court before January 1, 1976.
- D. A Closed Claim Report must be filed with the Commissioner within 30 days after a claim has been closed by the insurer, provided that this date is not more than 60 days after the actual date the claim was settled with respect to this defendant.
- E. For the purposes of this act, a municipality shall be any of the following:
- a. a governmental entity,
 - b. a governmental services unit funded and operated by any governmental entity, or
 - c. a quasi-governmental entity with autonomous taxing authority.

Examples of entities covered by this definition include cities, counties, townships, police and fire departments, municipal hospitals, school and park districts, and publicly-owned utilities. Private or non-profit organizations, whether partially or wholly funded by public moneys, shall not be included in the definition of a municipality.

- F. If the answer to a question is not available in the insurer's claim file or has not been discovered after reasonable effort during the course of the insurer's claim investigation or during the court proceedings, enter "0" in the rightmost box in the field. If a question does not apply to this claim, enter "1" in the rightmost box in the field. If any cost data (#19-#22) is not yet available when the report is filed, enter the best reasonable estimate of the missing data.

- G. Unless otherwise instructed, dates are to be coded using the first two boxes for the month and the last two boxes for the year.

Example: "June 20, 1976" would be coded as

0	6	7	6
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- H. Several fields require the coding of money amounts. Round to the nearest dollar and right justify (place numbers in the rightmost boxes).

Example: \$11,473.93 would be coded as

		1	1	4	7	4
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Reporting Instructions

1. NAIC Company Code - enter the NAIC five-digit company code for the insurance company filing this report form.

2. Claim File Number:

- a. The leftmost box in the field contains a "2" to indicate that this is a Closed Claim Report.

2

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- b. In the next two boxes, enter the last two digits of the year in which this report is filed.

Example: report is filed in 1979.

2

 -

7	9
---	---

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--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

 -

--

- c. In the next 15 boxes, enter the insurer's claim file identification number for this claim. Use leading "0's" if your company's claim file number has fewer than 15 numbers and letters. Do not enter any dashes or other punctuation. These 15 claim number boxes should match the corresponding claim number boxes on the Initial Report of Court Action, if any, filed on this claim.

Example: the insurer's claim identification number for this claim is AG-5032961.

2

 -

7	9
---	---

 -

0	0	0	0	0	0	A	G	5	0	3	2	9	6	1
---	---	---	---	---	---	---	---	---	---	---	---	---	---	---

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- d. Some companies assign a common claim number to cases involving multiple defendants. In the rightmost box enter a "1" if this is the first or only defendant reported under this claim identification number. Enter a "2" if this is the second defendant reported under this claim number, a "3" if this is the third defendant, etc. This number should match the corresponding number used on the Initial Report of Court Action for this defendant.

Example: this is the second defendant reported under this claim file number.

2	-	7	9	-	0	0	0	0	0	0	A	G	5	0	3	2	9	6	1	-	2
---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---

3. Insurer's Name - the full name of the insurance company filing this report form.
4. Person Responsible for Report - typewritten or printed name, address and telephone number of the person to be contacted if questions arise concerning this report.
5. Claim Disposition - enter the appropriate code to reflect the initial disposition of this case if it later went to appeal, or the final disposition of this case otherwise. If "11", explain the reason for dismissal in the space provided on the report form.
- 02 Settled by parties (including claims abandoned) before trial began.
 - 03 Settled by parties (including claims abandoned) after trial began.
 - 04 Judgement for plaintiff.
 - 05 Judgement for defendant.
 - 06 Directed verdict for plaintiff.
 - 07 Directed verdict for defendant.
 - 08 Judgement notwithstanding verdict for plaintiff (judgement for defendant).
 - 09 Judgement notwithstanding verdict for defendant (judgement for plaintiff).
 - 10 Dismissal - judgement of no cause for action.
 - 11 Consideration not paid on behalf of the insured, but a judgement of no cause for action was not entered.
 - 12 Other
6. Appealed - enter the correct code to indicate which party appealed the original decision:
- 1 - No appeal
 - 2 - Appeal by plaintiff
 - 3 - Appeal by defendant
7. Result of Appeal - enter appropriate code to reflect the result of the final appeal.
- Initial Judgement was:
- 2 - Upheld
 - 3 - Reversed
 - 4 - Upheld, but award was reduced
 - 5 - Other

Instructions for Closed Claim Report
Page 4

8. Date this Claim Closed - this is the date on which the insurer closes this claim with respect to this defendant. Enter the month in the first two boxes, the day of the month in the middle two boxes, and the year in the last two boxes in the field.

Example: September 23, 1979

0	9	2	3	7	9
---	---	---	---	---	---

9. Date Complaint Filed in Court - if not already provided in an Initial Report of Court Action, enter date as instructed in G.
10. Date of Occurrence - enter the date on which the bodily injury occurred. If the occurrence was alleged to have taken place over a period of time or to have involved a series of incidents, the "date of occurrence" is the date of the end of the period of time in question or the date on which the last alleged incident occurred.
11. Describe Incident which Caused Claim (Source of the Injury) - describe the incident here only if the information is not already provided in an Initial Report of Court Action.

MUNICIPAL LIABILITY CLAIM - Complete #12 and #13 only for a municipal liability claim.

12. Type of Political Subdivision - if not already provided on an Initial Report of Court Action, enter the appropriate code to describe the political subdivision which performed the action which led to this claim.

- 2 - City, town, or village or city, town, or village unit
- 3 - County, or county unit
- 4 - Township, or township unit
- 5 - Other autonomous taxing district (schools, parks, fire, etc.)
- 6 - Other

A city, (or town or village) county or township unit is a governmental department or organization that is run by, and does not have taxing authority separate from, the city (or town or village), county or township.

13. Population - enter the population of the "municipal" entity. If this entity is a unit of a city, county or township as described in #12, enter the population of the city, county or township. If this is a quasi-public entity with an autonomous taxing district, enter the population of the taxing district. Enter "0" if the population is not known. Place the numbers in the rightmost boxes.

Example: population = 34,000

		3	4	0	0	0
--	--	---	---	---	---	---

PRODUCTS LIABILITY CLAIM - Complete #14-#18 only for a products liability claim.

14. Type of Product - if not already provided on an Initial Report of Court Action, enter the name of the product involved.
15. Product Classification Code - if not already provided in an Initial Report of Court Action, enter the correct 4-digit Standard Industrial Classification (SIC) Code in (16a.), OR enter the correct 5-digit Insurance Services Office (ISO) Statistical Code (CSP Code) in (16b.), to describe the product involved.
16. Was the Product in Question Modified at Any Time Between the Date of Original Sale and the Date of Alleged Injury?
 - 0 - Don't know
 - 1 - No or Not applicable
 - 2 - Yes
17. If Yes, by Whom? - if the answer to #16 is yes, enter the appropriate code:
 - 0 - Don't know
 - 2 - Current user or owner
 - 3 - Original manufacturer
 - 4 - Intermediate owner or distributor
 - 5 - Other
18. Did the Product Meet Safety Requirements at Time of Original Sale? - safety requirements refer to the generally recognized and prevailing governmental and/or nongovernmental standards in existence at the time the product was sold or delivered by the defendant to the initial purchaser or user.
 - 0 - Don't know
 - 1 - No or Not applicable
 - 2 - Yes
19. Indemnity Payments on Behalf of this Defendant - enter the total amount of the insurer's liability for payments paid or incurred on behalf of this insured for this claim.
20. Allocated Loss Adjustment Expenses - enter the total amount of allocated loss adjustment expenses (including legal expenses) paid or incurred on behalf of this insured for this claim.
21. Total Payments for this Defendant - enter sum of #19 and #20.
22. Other Payments for this Defendant - enter the total amount of other awards paid or incurred on behalf of this defendant for this case, if known. Code as instructed in H.

EXHIBIT 10

STATE OF MINNESOTA

Commissioner of Banks
(612) 296-2715

Commissioner of Insurance
(612) 296-2488



Commissioner of Securities
(612) 296-6848

Executive Secretary
(612) 296-2283

DEPARTMENT OF COMMERCE

500 Metro Square Building
St. Paul, Minnesota 55101

February 8, 1980

TO: ALL COMPANIES LICENSED TO WRITE GENERAL LIABILITY IN MINNESOTA

FROM: MICHAEL D. MARKMAN
COMMISSIONER OF INSURANCE

SUBJECT: MINNESOTA PRODUCT LIABILITY - CLOSED CLAIM REPORT

Minnesota Law requires a reporting of data relative to Product Liability Insurance.

Please follow these instructions:

- (1) Complete the enclosed "Proof of Receipt" and return it to me as soon as possible.
- (2) Your insurer code and the products codes have remained the same. A copy of the products liability codes is enclosed.
- (3) Each company is to complete these reports and return them to us by March 15, 1980. Answer every question even though the answer may be "0".
- (4) Do not use terms such as "Unknown" or "Not Available." We are aware of the fact that some of your computers are not programmed to obtain this data. However, these reports will be of little value to us or to the Legislature unless they give a complete picture of the product liability situation in Minnesota. If you cannot answer a question exactly, please give your best estimate and indicate next to the question that it is an estimate.
- (5) WE ARE NOT INTERESTED IN OBTAINING INFORMATION ON POLICIES WRITTEN FOR THE PROTECTION OF INSURED IN STATES OTHER THAN MINNESOTA.
- (6) THE QUESTIONNAIRE ON POLICY INFORMATION SHALL CONTAIN DATA FOR THE PERIOD JANUARY 1, 1979 - DECEMBER 31, 1979.
- (7) INDIVIDUAL CLAIM REPORTS MUST BE FILED FOR EACH CLAIM WHICH WAS CLOSED BY YOUR COMPANY DURING THE PERIOD JANUARY 1, 1979 - DECEMBER 31, 1979. USE THE FORMAT OF THE ENCLOSED "INDIVIDUAL CLAIM REPORT".
- (8) Sign and date each report. If the signature is not legible, please type or print the name beside it.

Please follow these instructions. If you have any questions, contact Bert Heaton, at (612)296-8592.

(4 Enclosures)

AN EQUAL OPPORTUNITY EMPLOYER

P R O O F O F R E C E I P T

MINNESOTA PRODUCT LIABILITY CLAIM REPORT

I hereby acknowledge that _____,
(company name)

Insurer Code _ _ _ , has received the instructional memoranda and materials relating to this report.

Name

Title

Date

TYPE OR PRINT THE NAME, ADDRESS AND PHONE NUMBER OF THE
PERSON WE SHOULD CONTACT REGARDING THIS REPORT.

Name

Title

Company

Phone Number

Address

PLEASE COMPLETE AND RETURN IMMEDIATELY TO

Michael D. Markman
Commissioner of Insurance
Department of Commerce
500 Metro Square
St. Paul, MN. 55101

PRODUCT CODES*

- 001 FOOD
examples: dairy products; meat; vegetables; fruits; canned, frozen packaged foods
- 002 BEVERAGES
examples: all beverages excluding dairy products
- 003 KITCHEN APPLIANCES
examples: electric, gas & microwave ovens; garbage disposals; refrigerators; electric toasters; blenders
- 004 OTHER HOUSEHOLD APPLIANCES
examples: stereos, radios, television sets, water heaters, air conditioners and fans; clothes washers and dryers
- 005 PERSONAL PRODUCTS
examples: jewelry, clothing, cosmetics, tobacco, eyeglasses, hearing aids, oral braces, non-pharmaceutical health products, prosthetic devices
- 006 SERVICES
examples: electric wiring; installation, service and repair of heating and cooling devices; plumbing; roofing; drycleaning; packaging, automobile repair
- 007 HOUSEHOLD PRODUCTS
examples: light bulbs, cleansers, polishes, furniture, carpeting, doors, windows
- 008 TRANSPORTATION
examples: automobiles, trains, buses, aircraft, bicycles
- 009 HARDWARE GOODS
examples: fire extinguisher; aerosol containers; tools; fireproofing, waterproofing, insulating materials; firearms
- 010 PHARMACEUTICAL PRODUCTS
examples: prescription and non-prescription drugs, contraceptives
- 011 LIVE PRODUCTS
examples: animals and animal products
- 012 RECREATIONAL GOODS
examples: sporting goods, swimming pools and supplies
- 013 INDUSTRIAL PRODUCTS
examples: elevators, escalators, typesetting machines, office equipment, internal combustion engines, food processing equipment
- 014 MUNICIPAL OR PUBLIC GOODS
examples: traffic signals
- 015 MISCELLANEOUS

*The products listed were not meant to be exclusive. They were intended to be examples of what might be classified into the various categories.

MINNESOTA PRODUCT LIABILITY CLOSED CLAIM REPORT

JANUARY 1, 1979 - DECEMBER 31, 1979

BEFORE COMPLETING THIS REPORT CAREFULLY READ THE ATTACHED MEMORANDUM. A SEPARATE REPORT MUST BE FILED FOR EACH COMPANY.

INSURER CODE NUMBER _ _ _

(1) TOTAL NUMBER OF PRODUCT LIABILITY POLICIES ISSUED TO MINNESOTA INSUREDS _____:

PRIMARY _____
EXCESS _____
PACKAGE _____

(2) TOTAL NUMBER OF BUSINESS ENTITIES IN MINNESOTA FOR WHICH YOU PROVIDED PRODUCT LIABILITY INSURANCE _____:

PRIMARY _____
EXCESS _____
PACKAGE _____

(3) TOTAL AMOUNT OF PREMIUMS EARNED FROM MINNESOTA INSUREDS FOR PRODUCT LIABILITY INSURANCE _____:

PRIMARY _____
EXCESS _____
PACKAGE _____

(4) TOTAL NUMBER OF POLICIES YOU CANCELLED OR NON-RENEWED WHICH PROVIDED PRODUCT LIABILITY INSURANCE FOR MINNESOTA INSUREDS _____:

<u>REASONS</u>	<u>NUMBER</u>
(a) Cancelled or non-renewed at insured's initiative (including non-payment of premium).	_____
(b) Cancelled or non-renewed because of other exposure(s) in the risk not related to product liability.	_____
(c) Cancelled or non-renewed solely because of the product liability exposure.	_____
(d) Cancelled or non-renewed because of company management decisions not related to the particular risk.	_____
(e) Other (please explain)	_____

SIGNED BY:

Name _____

Title _____

Date _____

RETURN TO MINNESOTA INSURANCE COMMISSIONER ON OR BEFORE MARCH 15, 1980.

[illegible]

Date _____

RETURN TO MINNESOTA INSURANCE COMMISSIONER ON OR BEFORE MARCH 15, 1980.

EXHIBIT 11



State of Missouri

Joseph P. Teasdale, Governor

Department of Consumer Affairs, Regulation and Licensing

James R. Butler, Director

Division of Insurance

P. O. Box 690

Jefferson City, Missouri 65102

Telephone 314/751-4126

Jerry B. Buxton, Director

N O T I C E

TO: All Insurers Writing Product Liability Insurance in this State
FROM: Jerry B. Buxton, Director
SUBJECT: Annual Reporting of Data - Products
DATE: January 9, 1979

Please complete the enclosed form for your annual experience in products liability for 1978. In future years, the annual statement may include this data and this form would then be superfluous.

JBB:WBC:mlc

Enclosure

MISSOURI PRODUCT LIABILITY ANNUAL REPORTING

Pursuant to H.B. 1302, Effective August 13, 1978

INTRODUCTION

This form shall be used to report Product Liability loss and premium information to the Missouri Division of Insurance as set forth below. Reporting requirements apply to any policy providing Product Liability coverage, including monoline, composite rated, loss rated, large (a) rated and commercial package policies. The Product Liability portion of every composite, package, etc. policy will have to be isolated for both premiums and losses. In other words, the requirements apply whether transactions in the Annual Statement are categorized as Commercial Multiple Peril, Other Liability or any other Line of Business.

The information required in the following section (Premium and Loss Experience) shall be reported annually within 60 days following the end of each Annual Statement calendar year starting with the calendar year ending December 31, 1978. The report for 1978 will be due by March 1, 1979, etc.

PREMIUM AND LOSS EXPERIENCE

Product Liability earned premiums and incurred losses shall in succeeding years be extracted from the Annual Statement Page 14's as outlined in the Introduction. Data shall be extracted from Page 14 and Countrywide data from the sum of the Page 14's for all states and the District of Columbia.

A form is attached to be used in reporting data for 1978.

CLOSED CLAIM DATA

A form has been previously sent to your company for reporting of data. The Missouri and Illinois forms are in essence the same, except that Missouri requests that you submit the forms as you close the claims during the year.

1/8/79

MISSOURI PRODUCT LIABILITY ANNUAL REPORTING

Annual Statement Calendar Year 1978

		<u>Missouri</u>	<u>Countrywide</u>
1. Product Liability			
Direct Premium Earned	(\$)	_____	_____
2. Product Liability			
Direct Losses Incurred *	(\$)	_____	_____
3. Product Liability			
IBNR Reserve End of Year 1978	(\$)	_____	_____
4. Product Liability			
IBNR Reserve End of Year 1977	(\$)	_____	_____
5. Product Liability			
Incurred Losses Including			
Change in IBNR			
(Col. 2+3-4)	(\$)	_____	_____
6. Product Liability			
Loss Ratio			
(Col. 5÷Col. 1)	(%)	_____	_____

* Direct Losses Incurred excludes IBNR

COMPANY REPORTING _____

NAIC GROUP CODE _____ NAIC COMPANY CODE _____

PERSON REPORTING _____ TITLE _____

1/8/79

STATE OF MISSOURI

DIVISION OF



INSURANCE

Department of Consumer Affairs, Regulation and Licensing
P.O. Box 690, Jefferson City, Mo. 65101

N O T I C E

TO: ALL COMPANIES PROVIDING PRODUCT LIABILITY COVERAGE IN THIS STATE
FROM: JERRY B. BUXTON, Director of Insurance
SUBJECT: Products Liability Closed Claim Reporting Form
DATE: October 27, 1978

Pursuant to and in accordance with H.B. 1302 which became effective August 13, 1978, please use the enclosed form to provide information on your claims experience for products liability coverages. Please follow the instructions included and, if questions develop, contact W. Bradford Connor (314) 751-3898. Missouri has developed this form in conjunction with Illinois, Kansas, Nebraska, Oregon and Pennsylvania, and it is hoped that this form may be a common closed claim report form in the future for all states. Since it is modeled somewhat after the N.A.I.C. medical malpractice form, the expertise for developing the form may already exist among your liability claims personnel.

We hope that by the development of this form we can lighten the burden of reporting on many varied forms to each state. Criticisms and suggestions on the form are welcome but this form cannot be changed for at least another year.

JBB:WBC:mlc

Enclosure

PRODUCT DATA

12. DATE OF MODIFICATION
13. BY WHOM CODE
14. DID PRODUCT MEET OSHA SAFETY REQUIREMENTS ☐ YES ☐ NO
15. DID PRODUCT MEET OTHER SAFETY REQUIREMENTS ☐ YES ☐ NO
- 15a. IF YES, WHAT WAS THE SOURCE OF THE REQUIREMENTS
16. DID PRODUCT MEET SAFETY STANDARDS AT THE TIME OF INJURY OR DAMAGE ☐ YES ☐ NO

INJURY DATA

17. DATE OF OCCURRENCE
18. DESCRIBE INCIDENT WHICH CAUSED CLAIM
-
-
-
-
19. SEVERITY CODE ☐ BI ☐ PD
20. INJURY OCCURRED IN HOME ☐ OFFICE ☐ PLANT ☐ AUTO ☐
- OTHER (PLEASE SPECIFY)

21. DATE FIRST REPORTED TO INSURER
22. DATE ACTION FILED
- 22a. NUMBER DEFENDANTS IN CLAIM
- 22b. NUMBER PLAINTIFFS THIS CLAIM
23. CLAIM DISPOSITION
(See Instructions)
24. COURT CODE
(See Instructions)
25. NUMBER DERIVATIVE CLAIMS
26. CLAIM FILE NO. FOR EACH COMPANION CLAIM
27. STATE OR TERRITORY UNDER WHOSE JURISDICTION CLAIM WAS DISPOSED
 FOR DIVI-
SION USE
28. DATE THIS CLAIM CLOSED OR DISPOSED

	INDEMNITY PAID BY YOU ON BEHALF OF THIS DEFENDANT	BODILY INJURY	PROPERTY DAMAGE	OTHER
29.				
30.	OTHER INDEMNITY PAID BY OR ON BEHALF OF THIS DEFENDANT			
31.	INDEMNITY PAID BY ALL PARTIES FOR ALL DEFENDANTS			
32.	TOTAL AMOUNT ALLOCATED FOR FUTURE PERIOD PAYMENTS FOR ALL DEFENDANTS			
33.	LOSS ADJUSTMENT EXPENSE PAID BY YOU TO DEFENSE COUNSEL			
34.	ALL OTHER ALLOCATED LOSS ADJUSTMENT EXPENSE PAID BY YOU			
35.	INITIAL RESERVE BY YOUR COMPANY ON THIS CLAIM			
36.	DATE OF RESERVE IF NOT DATE WHEN FIRST REPORTED			

CLOSURE DATA

TELEPHONE

FORM PREPARED BY

AC - NUMBER EXTENSION

(SIGNATURE)

INSTRUCTIONS

This form is to be utilized for reporting information on claims which have been closed and the claim arose by reason of a defect, or an alleged defect, in an insured's product pursuant to any policy providing product liability coverage. Product liability may include monoline, composite rated, loss rated, large (a) rated and commercial package policies except farmowners and garage keepers liability. The information required by this form must be furnished on each claim against Missouri insureds regardless of the jurisdiction under whom judgment was rendered, settlement made or the claim was otherwise disposed. The information required by this form must also be completed on each claim adjudicated, settled or otherwise disposed in Missouri regardless of the location of the insured or the state of policy issuance.

Complete a report for all closed claims, including those closed without payment. Complete all blanks possible.

* * * * *

COMPANY DATA

INSURER'S NAME --The full and legal name of the insurance company providing the coverage for this claim.

NAIC GROUP AND COMPANY CODE --Enter the NAIC three digit group code and the five digit company code for the company listed in item 1.

INSURER CLAIM FILE NUMBER --Enter the company file number for this claim. Begin the file number in the first space provided. Both alphabetic and numeric characters are permitted. DO NOT USE HYPHENS, DASHES OR SLASHES. If the file number is less than 20 characters, enter only the file number and leave the remaining spaces blank.

INSURED DATA

INSURED ADDRESS --Enter the city, state and zip code address for the insured against whom this claim was made. "STATE" is the two letter official postal code; i.e. MO, MA, KA, etc.

TYPE OF PRODUCT --Enter a verbal description of the product which caused the claim to arise. If the product in question is a component of a final product, so state and name primary type(s) of end product(s).

6 INSURED'S MAJOR BUSINESS CLASSIFICATION - Enter both the verbal description and the numerical code.

Major Business Classifications

- 1 Subcontractor to Manufacturer
- 2 Manufacturer
- 3 Wholesaler
- 4 Retailer
- 5 Servicer - Repairer
- 6 Distributor

PRODUCT DATA

7 ISO STATISTICAL CODE FOR PRODUCT --Enter ISO (CSP) Codes as of 7-1-78 (CSP Part VI, Sect. c) for the product in question.

8 ISO STATISTICAL CODE FOR MANUFACTURER -- This is to be completed in the event that the insurer's major line of manufacturing is different from that of the product in question (i.e. a manufacturer of airplanes who incidentally manufactures an adhesive, with the adhesive being the product in question). If this item is to be reported, use the ISO (CSP) Codes as of 7-1-78 (CSP Part VI, Sect. c).

9 DATE OF MANUFACTURE

10 DATE OF SALE --Both items refer to the product in question. These dates and all other dates are to be reported in the form MMDDYY. All spaces must be filled. Example: The date to be reported is June 4, 1978, the report should read 0 6 0 4 7 8

11 WAS PRODUCT IN QUESTION MODIFIED --Enter an "X" in "YES" block if the product in question differs in any way from the product as originally produced.

12 DATE OF MODIFICATION --Enter date (as described above) only if item 11 is "YES."

13 BY WHOM --Enter verbally from list by whom product was modified. If "other" is entered, please explain.

14 (Self-Explanatory)

15 DID PRODUCT MEET OTHER SAFETY STANDARDS WHEN MANUFACTURED --If product met any safety standards other than OSHA when manufactured, enter an "X" in the "YES" block.

15a IF YES, WHAT WAS THE SOURCE OF THE REQUIREMENT --Enter whether source was Federal, State, Local or other. If "other," please explain.

16 DID PRODUCT MEET SAFETY STANDARDS AT THE TIME OF INJURY OR DAMAGE --This question does not refer to standards existent at time of manufacture. In order to enter "YES," the product in question must have met standards for the product or product type that were in effect at the time of injury or damage.

Example: A product was manufactured in 1950 and met Federal safety standards existent at that time; item 15 is answered "YES." However, since 1950, much more stringent safety regulations for the product have come into effect. The product in question has not been enhanced to meet these new safety requirements. Therefore, an "X" must be entered in the "NO" block.

INJURY DATA

17 DATE OF OCCURRENCE --Date must be in format specified in items 9 and 10.

18 (Self-Explanatory)

19 SEVERITY CODE -This two digit degree code ranks the degree of injury and/or property damage that occurred. In no way is the severity related to the financial aspects of the claim. Please select and enter the appropriate number in each block. The rankings are independent and do not have to be equal.

First Digit BODILY INJURY

- 0 No injury(or legal issue)
- 1 Emotional only
- 2 Temporary-Insignificant
- 3 Temporary-Minor
- 4 Temporary-Major
- 5 Permanent-Minor
- 6 Permanent-Significant
- 7 Permanent-Major
- 8 Permanent-Grave
- 9 Death

Second Digit PROPERTY DAMAGE

- 0 No property damage
- Minor Property
- 1 Little or no interruption
- 2 Interrupted use
- 3 Total replacement

Intermediate Property

- 4 No interruption
- 5 Interrupted use
- 6 Total replacement

Principal Property

- 7 No interruption
- 8 Interrupted use
- 9 Total replacement

0 (Self-Explanatory)

CLAIM DATA

1 DATE FIRST REPORTED TO INSURER --Date must be in format of items 9 and 10.

2 DATE ACTION FILED --This date implies some type of legal action, such as the date a suit was filed for the first time. Enter date in same format as all other dates. If claim was closed without legal action, leave blank.

2a NUMBER DEFENDANTS IN CLAIM

2b NUMBER PLAINTIFFS IN THIS CLAIM --Both items refer to this claim only. For derivative and companion claims refer to items 25 and 26.

3 CLAIM DISPOSITION --For this claim, enter final method of disposition, numerical code only.

- 1 Settled by parties (including claims abandoned)
- 2 Disposed of by a court (including dismissals)
- 3 Disposed of by binding arbitration

COURT CODE --For this claim, enter the appropriate court code.

- 0 No court proceedings were initiated
- 1 Directed verdict for plaintiff
- 2 Directed verdict for defendant
- 3 Judgment notwithstanding verdict for plaintiff (judgment for defendant)
- 4 Judgment notwithstanding verdict for defendant (judgment for plaintiff)
- 5 Judgment for plaintiff
- 6 Judgment for defendant
- 7 Judgment for plaintiff after appeal
- 8 Judgment for defendant after appeal
- 9 All others (including dismissals and claims settled after initiation of court proceedings)

NUMBER DERIVATIVE CLAIMS -- Enter the total number of derivative or companion claims arising from the incident which caused this claim to be made.

CLAIM FILE NUMBER FOR EACH COMPANION CLAIM --Enter claim file number in the same format as item 3. Use additional paper if necessary. The quantity of file numbers must equal the number of derivative claims reported in item 25.

27 STATE OR TERRITORY UNDER WHOSE JURISDICTION CLAIM WAS DISPOSED --Enter full name of State or Territory where claim was disposed regardless of whether or not legal action was involved.

CLOSURE DATA

ITEMS 29 - 35 --No decimals are to be entered. If decimals are involved, round to nearest dollar. Assume a decimal point exists immediately after the last space for each entry. Zero fill all unused spaces to the left of entered numbers.

29 INDEMNITY PAID BY YOU ON BEHALF OF THIS DEFENDANT --Enter all amounts paid by this insurer.

30 OTHER INDEMNITY PAID BY OR ON BEHALF OF THIS DEFENDANT --Enter all amounts paid by other than this insurer. Item can include amount paid by insured as a deductible, and amounts paid by other insurers, if known.

31 INDEMNITY PAID BY ALL PARTIES FOR ALL DEFENDANTS --Must at least equal the sum(s) of items 29 and 30.

36 DATE OF RESERVE IF NOT DATE WHEN FIRST REPORTED --Enter in previously used date format.

PRODUCT BODILY INJURY AND PROPERTY DAMAGE LIABILITY*
Experience is to be Coded by States. Exception: New York State†
PRODUCT CLASSIFICATION CODES

CLASSIFICATION	EXPOSURE REPORTING BASIS	CODE	
Abrasive Paper or Cloth Preparation	\$1,000 of Receipts	32902	
Abrasive Wheels (manufacturer)	\$1,000 of Receipts	32902	
Abrasives or Non-Metallic Mineral Products Mfg.	\$1,000 of Receipts	32908	★
Adhesives and Adhesive Tapes—(mfr.)	\$1,000 of Receipts	28901	
Adhesives Mfg.	\$1,000 of Receipts	28901	
Advertising Companies — outdoor	\$1,000 of Receipts	73125	
Aerosol Containers—filling or charging	Ten-Thousands of Fillings	34112	
Aerosol Containers Mfg.	\$1,000 of Receipts	34111	★
AIR CONDITIONING EQUIPMENT, HEATERS, COMBINED HEATING AND AIR CONDITIONING UNITS, STOVES, FURNACES AND STOK- ERS, AND REFRIGERATING EQUIPMENTS:			
DEALER OR CONTRACTOR			
Air Conditioning Equipment—excluding heating systems—including ducts and piping	\$1,000 of Receipts	50611	★
Heaters, Combined Heating and Air Conditioning Units, Stoves, Fur- naces or Stokers—including ducts and piping:			
Coal or Wood	\$1,000 of Receipts	52211	
Electric	\$1,000 of Receipts	52212	★
Gas, Gasoline, Oil or other liquid fuels	\$1,000 of Receipts	52213	
Refrigerating Equipment—including ducts and piping—N.O.C.	\$1,000 of Receipts	50621	
INSTALLATION, SERVICE OR REPAIR			
Air Conditioning Equipment—excluding heating systems—including ducts and piping	\$1,000 of Receipts	17151	★
Heaters, Combined Heating and Air Conditioning Units, Stoves, Fur- naces or Stokers—including ducts and piping:			
Coal or Wood	\$1,000 of Receipts	17121	
Electric	\$1,000 of Receipts	17122	★
Gas, Gasoline, Oil or other liquid fuels	\$1,000 of Receipts	17131	
Refrigerating Equipment—including ducts and piping—N.O.C.	\$1,000 of Receipts	17171	
MANUFACTURER			
Air Conditioning Equipment—excluding heating systems—including ducts and piping	\$1,000 of Receipts	35801	★
Heaters, Combined Heating and Air Conditioning Units, Stoves, Fur- naces or Stokers—including ducts and piping:			
Coal or Wood	\$1,000 of Receipts	34302	
Electric	\$1,000 of Receipts	36904	★
Gas, Gasoline, Oil or other liquid fuels	\$1,000 of Receipts	34304	
Refrigerating Equipment—including ducts and piping—N.O.C.	\$1,000 of Receipts	35803	
MANUFACTURER—RETAILER			
Air Conditioning Equipment—excluding heating systems—including ducts and piping	\$1,000 of Receipts	35802	★
Heaters, Combined Heating and Air Conditioning Units, Stoves, Fur- naces or Stokers—including ducts and piping:			
Coal or Wood	\$1,000 of Receipts	34303	★
Electric	\$1,000 of Receipts	36905	

† Code New York State risks for the following territories: (a) Greater New York (31072); (b) Remainder of State (31999).

* It is understood that companies have assigned one type of loss code to Product Bodily Injury and another to Product Property Damage.

EXHIBIT 12



STATE OF MONTANA

OFFICE OF
E. V. "SONNY" OMHOLT

STATE AUDITOR
COMMISSIONER OF INSURANCE
SECURITIES COMMISSIONER
CENTRAL PAYROLL SYSTEM

HELENA, MONTANA 59601

June 9, 1980

Mr. George Neidich
Room 5027
Commerce Department
Washington, D. C. 20230

Re: Products Liability Task Force

Pursuant to my telephone conversation with your office,
enclosed is copy of the form stating the information
required by our statute, section 33-2-721, MCA.

If we may be of any additional assistance please let us
know.

E. V. "SONNY" OMHOLT
State Auditor & Ex Officio
Commissioner of Insurance

A handwritten signature in cursive script, appearing to read "J. Driscoll".

Josephine M. Driscoll, CPIW
Chief Deputy Insurance Commissioner

JMD:s
enc.

MONTANA DEPARTMENT OF INSURANCE
PRODUCTS LIABILITY INSURANCE EXPERIENCE

Supplement to the December 31, 19____ Annual Statement
(to be filed on or before April 1 for the calendar year immediately preceding)

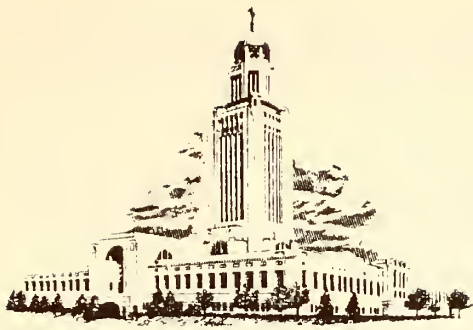
Insurance Company Name

Each insurance company doing business in Montana that insures against product liability losses shall make and file this report pursuant to Section 33-2-721, MCA. (Use whole dollar amounts rounded to the nearest dollar)

	<u>Montana Exhibit</u>	<u>Nationwide Exhibit</u>
A. Premiums written	\$ _____ \$ _____
B.(1) Premiums earned	\$ _____ \$ _____
(2) Losses incurred	\$ _____ \$ _____
Loss adjustment expenses	\$ _____ \$ _____
(3) Reserves for unpaid reported losses	\$ _____ \$ _____
Reserves for incurred but not reported losses	\$ _____ \$ _____
(4) Other reserves for other product liability losses	\$ _____ \$ _____
C. For any claim, loss, or action for bodily injury, death, or property damage (arising out of products liability insurance coverage) allocated to Montana experience, if there has been a final judgement or a settlement in any amount or if there has been a final disposition not resulting in a loss payment on behalf of the insured, submit an exhibit disclosing the following information on each claim:		
(1) a description of the type of product involved in each claim;		
(2) the date of occurrence from which the claim arose;		
(3) the state or other jurisdiction wherein the claim was adjudicated, settled, or other disposition made;		
(4) the date legal action commenced, if filed;		
(5) a brief description of the occurrence out of which the claim arose;		
	<u>Montana Exhibit</u>	<u>Nationwide Exhibit</u>
(6) total number of all claims	_____ _____
(7) total number of all claims closed without payments	_____ _____
(8) total number of final verdicts or final judgements for defendants	_____ _____
(9) total number of final verdicts or final judgements for plaintiffs	_____ _____

Section 33-2-723, MCA. No liability may arise against any insurer or against its agents or employees as a result of making this report.

EXHIBIT 13



State of Nebraska

DEPARTMENT OF INSURANCE

LINCOLN 68509

August 9, 1978

Bulletin CB-41

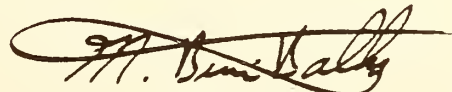
TO: All Companies Writing Liability Insurance In Nebraska
ATTENTION: Executive Officer

The purpose of this bulletin is to 1) notify all casualty companies of the effect of LB 665, passed during the 1978 Nebraska Legislative session and 2) to promulgate the forms, with the instructions, necessary for the submission of the required data.

The Bill requires that every insurer authorized to write products and completed operations liability insurance in Nebraska shall, on or before April 1st each year, report both general statistical data concerning products and completed operations liability insurance and specific information on products and completed operations liability claims which have been settled the previous calendar year. This information is to be given beginning with calendar year 1978. A copy of LB 665 is attached to this bulletin.

This Department cannot waive any of the requirements nor can we interpret the law to be less stringent than reflected by the enclosed forms. If you have any questions, or if this Department can provide additional guidance, you may contact Barbara R. Hansen at (402) 471-2201.

Please distribute this material to your branch offices and all divisions within your company which need to be accumulating information for calendar year 1978. The 1978 reports must be filed by or before April 1, 1979.


M. BERRI BALKA
Director of Insurance

Attachments

NEBRASKA PRODUCTS LIABILITY STATISTICAL REPORT
As required by Nebraska LB 665

For the year 19__ of the

Company Name

Information must be typed or printed legibly in ink
If more space is needed to answer questions attach additional sheet of paper

- (1) List all lines of insurance your company writes in any jurisdiction (use the same categories as designated on p. 14 of the Annual Statement):

- (2) In what states is your company authorized to write products liability insurance?

- (3) State the amount of written premium collected for products liability insurance in Nebraska and nationwide, for bodily injury and property damage, beginning with January 1 of the year for which this information is given, on the following:

- 3a) Written premium for policies insuring only against product liability losses:

	<u>Nebraska</u>	<u>Nationwide</u>
BI	\$	\$
PD	\$	\$

- 3b) Written premiums for policies including insurance against product liability losses when the premium is divisible and identifiable (examples include, but are not limited to SMP and other package policies):

	<u>Nebraska</u>	<u>Nationwide</u>
BI	\$	\$
PD	\$	\$

- 3c) Written premiums for excess coverage on product liability losses (use the written premium for the products coverage for any policy that provides coverage over primary underlying insurance, whether written on a following excess basis or an umbrella basis):

	<u>Nebraska</u>	<u>Nationwide</u>
BI	\$	\$
PD	\$	\$

NEBRASKA PRODUCTS LIABILITY STATISTICAL REPORT
As required by Nebraska LB 665

For the year 19__ of the

Company Name

- (4) State the amount of written premium allocated for products liability coverage, not shown under item (3), for insurance which includes coverage for products liability when the premium is not divisible, but is allocated for experience purposes (examples include, but are not limited to Garage Liability and Storekeepers Liability):

	<u>Nebraska</u>	<u>Nationwide</u>
BI	\$	\$
PD	\$	\$

- (5) The following information is to be given for products liability insurance experience allocated to Nebraska and for nationwide experience beginning with January 1 of the year for which this information is given. These figures should include basic, excess and all forms as required by questions (3) and (4). The figures given for items 5c) and 5d) together should equal the figures given for 5b):

- 5a) Total amount of earned premiums:

	<u>Nebraska</u>	<u>Nationwide</u>
BI	\$	\$
PD	\$	\$

- 5b) Total amount of incurred losses including all loss adjustment expenses and Incurred But Not Reported Reserves:

	<u>Nebraska</u>	<u>Nationwide</u>
BI	\$	\$
PD	\$	\$

- 5c) Amount of incurred losses including all loss adjustment expense represented by reserves other than Incurred But Not Reported Reserves:

	<u>Nebraska</u>	<u>Nationwide</u>
BI	\$	\$
PD	\$	\$

- 5d) Amount of incurred losses represented by Incurred But Not Reported Reserves:

	<u>Nebraska</u>	<u>Nationwide</u>
BI	\$	\$
PD	\$	\$

- 5e) What is the formula used to develop Incurred But Not Reported Reserves?

NEBRASKA PRODUCTS LIABILITY STATISTICAL REPORT
As required by Nebraska LB 665

For the year 19__ of the

Company Name

- 5f) What is the method of allocation of Incurred But Not Reported Reserves to each state? (If method varies what method was used for Nebraska?)

Items 6 through 13 relate to products liability claims reported on the Nebraska Closed Claims Report for claims allocated to Nebraska experience for the calendar year for which this report is made.

- (6) Total number of all claims closed: _____
- (7) Total number of all claims closed without payment: _____
- (8a) Total number of claims closed with payment as a result of final judgment by a court: _____
- (8b) Total amount paid on claims included under 8a: \$ _____
- (9a) Total number of claims closed with payment based on a settlement prior to final judgment if any suit filed: _____
- (9b) Total amount paid on claims included under 9a: \$ _____
- (10a) Total number of claims closed with payment based on a settlement when no suit was filed: _____
- (10b) Total amount paid on claims included under 10a: \$ _____
- (11) Total number of suits filed: _____
- (12) Total number of final verdicts or judgments for defendants (your insureds): _____
- (13) Total number of final verdicts or judgments for plaintiffs: _____

Name of company representative completing report

()

Telephone number

PL Statistical Report, Ed. 7-78

Company Name

Claim File Number

PL Closed Claim Reporting Form, Ed. 7-78

INSTRUCTIONS

This form is to be used on any claim, loss or action for bodily injury, death, or property damage allocated to Nebraska experience when there has been a final judgment, a settlement in any amount, or a final disposition not resulting in a loss payment on behalf of the insured. The information required by this form must be furnished on each claim against Nebraska insureds regardless of the jurisdiction under which judgment was rendered, settlement made or the claim was otherwise disposed of.

Information must be typed or printed legibly in ink.

- (1) Description of product: _____
- (2) Rating classification code of product (use ISO Bureau code): _____
- (3) Date of occurrence from which the claim arose: _____
- (4) Summary of occurrence out of which claim arose: _____

- (5a) Date legal action commenced (if filed): _____ (5b) No action filed: _____
- (6) Date notice of claim to company: _____
- (7) Type of disposition and date of final action:
 - 7a) Judgment date: _____ 7b) Settlement date: _____
 - 7c) Dismissal date: _____ 7d) Date of closing claim without payment: _____
 - 7e) Reason for settlement: _____

- (8) State or other jurisdiction wherein claim was adjudicated, settled or other disposition made: _____

- (9) Amount and basis (e.g. bodily injury, death or property damage) of award or settlement to plaintiff. If there were several plaintiffs or claimants, number each one and show the amounts awarded and the basis for each award. Designate a number for each claimant even if their claim was closed without payment. _____

- (10) Allocated loss adjustment expense (e.g. defense costs, witness fees, medical reports):
\$ _____

Name of company representative completing form

() _____
Telephone Number

SEND TO: Nebraska Department of Insurance, P.O. Box 94699, Lincoln, Nebraska 68509

EXHIBIT 14

NORTH CAROLINA PRODUCTS LIABILITY
REPORTING FORM

COMPANY

LOCATION

NOTES

1. Statutory Authority: N.C.G.S. 58-21.2
2. Reporting period: July 1, 1979 through December 31, 1980
3. Scope of report: North Carolina products liability experience only
4. Due date of report: June 1, 1980
5. Report to be submitted to:

North Carolina Department of Insurance
Fire and Casualty Division
P. O. Box 26387
Raleigh, N. C. 27611

INSURER EXPERIENCE

1. Total products liability earned premium received during reporting period from insureds resident or located in North Carolina: \$ _____
2. Total number of policies of insureds resident or located in North Carolina for which insurer provides liability insurance: _____
3. Total number of insureds resident or located in North Carolina whose products liability coverage insurer cancelled or refused to renew, and reasons therefore (list reasons on separate sheet): _____
4. Number of products liability claims filed during reporting period, by type of claim and in total:
 - a. Bodily Injury: _____
 - b. Property Damage: _____
 - c. Other (specify): _____
 - d. Total (a+b+c): _____
5. Total amount of reserves outstanding at end of reporting period for claims filed during reporting period: \$ _____
6. Amounts paid in settlement or discharge of claims filed during reporting period, by type of claim and in total:
 - a. Bodily Injury: \$ _____
 - b. Property Damage: \$ _____
 - c. Other (specify): \$ _____
 - d. Total (a+b+c): \$ _____
7. Total amount of outstanding reserves for claims filed in years prior to the reporting period: \$ _____
8. Total amount of reserves for incurred but not reported losses: \$ _____
9. Total incurred losses (lines 5+6 - 7+8): \$ _____
10. Loss ratio (line 9 ÷ line 1): _____ %

DATE

Form completed by: _____

NAME OF COMPANY OFFICIAL

EXHIBIT 15

PURSUANT TO NORTH DAKOTA 1979 SESSION LAWS
S. L. § 340, Section 2, North Dakota
Century Code 26-01-02.4
REPORTING OF PRODUCT LIABILITY INFORMATION

Every insurance company providing product liability insurance or excess insurance above self-insurance to one or more manufacturers, sellers, or distributors in this state shall file with the Commissioner of Insurance, not later than the first day in April in each year, a report containing the following information for the one-year period ending December thirty-first of the previous year, except that information for the period preceding July 1, 1979, need not be reported.

1. The name of the insurance company.
2. The name of all other insurance companies associated with the company submitting the report.
3. The states in which the company has been admitted for product liability insurance.
4. The dollar amount collected in product liability earned premiums and the dollar amount of product liability incurred losses in this state and on a nationwide basis.
5. The amounts shown in answer to subsection 4 which include any other insurance delivered as part of a package which cannot be considered exclusively product liability insurance.
6. The total number of insureds, resident or located in North Dakota, for which the insurance company provided product liability insurance.
7. The total number of insureds, resident or located in North Dakota, whose product liability insurance coverage the insurance company cancelled or refused to renew and the reasons therefor.
8. The percentage of product liability premiums that are incurred for the following:
 - a. Losses, including all loss adjustment expenses ratioed to premiums earned.
 - b. Commissions, ratioed to premiums written.
 - c. Taxes, ratioed to premiums written.
 - d. All other expenses, ratioed to premiums earned.
 - e. The total of all expenses included in subdivisions a through d, ratioed to premiums earned.
 - f. Profits and reserves, ratioed to premiums earned.
9. The basis upon which the company allocates premiums received and losses incurred from a multistate product liability risk, whether it be assigned to the risk's state or domicile, allocated to each state in which the risk has a physical plant, allocated to each state on the basis of sales in each state, or allocated on some other basis.

The report shall be in the format established by the Commissioner of Insurance and a copy of the insurance company's most recent annual report to shareholders or policyholders shall be submitted with the report. If any of the required data is estimated, that fact shall be clearly indicated.

PRODUCT LIABILITY REPORTING FORM

Please complete this form and return to the North Dakota Insurance Department with submission of your annual statement. Also, please submit a copy of your company's most recent annual report to shareholders and policyholders. Attached is a copy of North Dakota Century Code § 26-01-02.4, which explains this form. The question numbers in the form correspond to subsections 1-9.

1. Name of Company: _____

2. Names of Associated Companies:

_____	_____	_____
_____	_____	_____
_____	_____	_____

Please list any additional companies on reverse side.

3. States Admitted for Product Liability:

__ AL	__ AK	__ AZ	__ AR	__ CA	__ CO	__ CT	__ DE	__ FL	__ GA
__ HI	__ ID	__ IL	__ IN	__ IA	__ KA	__ KY	__ LA	__ ME	__ MD
__ MA	__ MI	__ MN	__ MS	__ MO	__ MT	__ NE	__ NV	__ NH	__ NJ
__ MN	__ NY	__ NC	__ ND	__ OH	__ OK	__ OR	__ PA	__ RI	__ SC
__ SD	__ TN	__ TX	__ UT	__ VT	__ VA	__ WA	__ WV	__ WI	__ WY

4. Earned Premium-Incurred Losses (As in Annual Statement, P. 14; excluding loss adjustment expense, IBNR, or any other form of adjustment)

	Earned Premium	Incurred Losses
A. North Dakota	\$ _____	\$ _____
B. Nationwide	\$ _____	\$ _____

5. Earned Premium-Incurred Losses

	Earned Premium	Incurred Losses
A. North Dakota		
Package:		
Comprehensive General Liability	\$ _____	\$ _____
Special Multi-Peril	\$ _____	\$ _____
Storekeepers	\$ _____	\$ _____
Auto-Garage Liability	\$ _____	\$ _____
Other	\$ _____	\$ _____
Total	\$ _____	\$ _____

Earned Premium

Incurred Losses

B. Nationwide

Package:

Comprehensive General Liability	\$ _____	\$ _____
Special Multi-Peril	\$ _____	\$ _____
Storekeepers	\$ _____	\$ _____
Auto-Garage Liability	\$ _____	\$ _____
Other	\$ _____	\$ _____
Total	\$ _____	\$ _____

6. Number of North Dakota Insureds: _____

7. Number of North Dakota Insureds Cancelled or Non-Renewed: _____

REASONS FOR CANCELLATION OR NON-RENEWAL

Please use reverse side if additional space is needed.

8. Percentage of Product Liability Premiums Incurred for the following:

Percentage of Earned Premium

a. Incurred Loss plus Loss Adjustment Expense	_____ %
b. Commissions	_____ %
c. Taxes	_____ %
d. Other Expenses	_____ %
Total (a through d)	_____ %
e. Profits and Reserves	_____ %

9. Basis of allocating premiums earned and losses incurred from Multi-State Risk:

- _____ a. Assigned to the Risk's State or Domicile.
- _____ b. Allocated to each state in which the risk has a physical plant.
- _____ c. Allocated to each state on the basis of sales in each state.
- _____ d. Other (Please explain).

PENN STATE UNIVERSITY LIBRARIES



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